Annual Financial Report
at 31 December 2017

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II Corporate Boards

Board of Directors	Board of Statutory Auditors	Independent Auditors
Chairwoman Paola Muratorio **Deputy Chairman** Carlo Michelini **Chief Executive Officer** Michele Enrico De Censi **Directors** Matteo Ambroggio Matias Sebastian Burghardt Rita Ciccone Rosario Mazza Luca Galli Giuseppe Picco Rogantini Stephan Fedrigo Rosaria Calabrese	**Chairman** Marco Antonio Modesto Dell’Acqua **Standing auditors** Gian Luigi Gola Marco Giuliani **Alternate auditors** Andrea Cioccarelli Giuseppe Panagia	PricewaterhouseCoopers S.p.A.

Milan Office

III Directors' Report

1. Foreword

According to the Bank of Italy's recent Economic Bulletin issued in January 2018[1] and referring to 2017, the expansion of the Italian economy consolidated during the year, albeit with growth still below the other European countries.
Gross domestic product increased in the industrial sector thanks to the marked expansion in manufacturing and to the recovery in construction and business confidence indicators in the sectors of capital and intermediate goods were at high levels in the final quarter of 2017.
The trend in freight transport flows and the increase in average electricity consumption in the final quarter of the year are further positive indicators of the growth of industrial activity.

The projections for Italy's economy, based on the most recent trends, suggest that GDP growth averaged 1.5 percent in 2017, and is estimated at 1.4 percent also in 2018 and 1.2 percent in both 2019 and 2020.

The trend in the growth of the gas distribution network and new connections to it, although showing a slight rise in the number of active customers, is still influenced by the low level of confidence among construction companies, which reported problems accessing credit in 2017.
Although not impacting directly on the Group's Income Statement, the 2017 report of the Italian Ministry of Economic Development on gas balancing shows a further increase in gross domestic gas consumption at the national level. In December 2017, gas consumption was +6.0% to 75,151 million cubic metres, compared to 70,914 million cubic metres in the previous year.

For 2017, the 2i Rete Gas Group's operating figures show a strong improvement on the same figures for 2016, with a further recovery in transported volumes and a slight rise in the number of Redelivery Points supplied; from the economic viewpoint, there was an increase in the results in terms of EBITDA, net of the change in the provision for risks and charges.
Financial expenses in the year rose significantly, entirely due to the repurchase and reissue of the existing debenture loan (the so-called liability management exercises), which were successfully completed by the Parent Company; they extended the duration of the Group's debt, thus improving the financial structure.
Net income was, therefore, 121.6 million euro, down on the previous year due to the impact of one-off financial expenses for the aforementioned liability management exercises.
Finally, the increase in the net financial position was mainly due to the significant investment in the year and the liability management exercise.

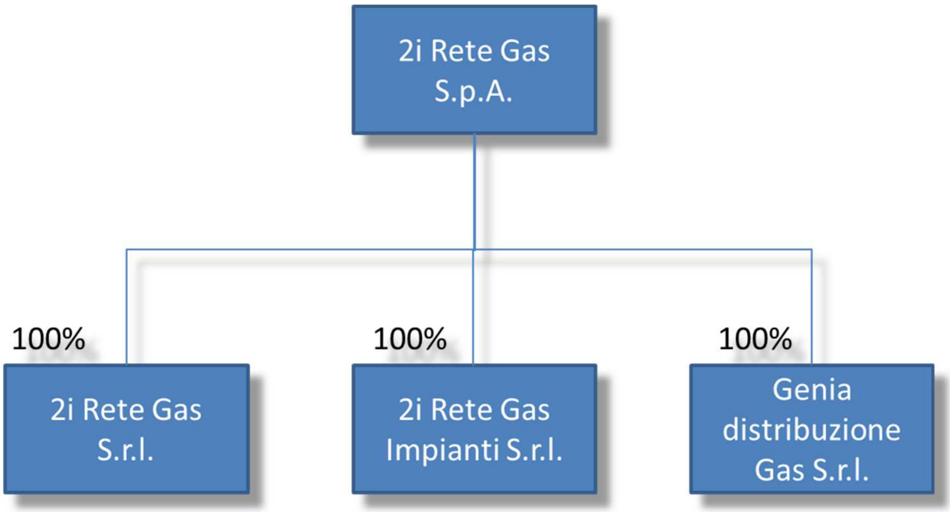
During 2017, only one more territorial tender was called for a total of 20 ongoing proceedings; at 31 December 2017, the Group had presented an offer for two tenders (Milan

[1] Bank of Italy - Economic Bulletin No. 1 2018 dated 19 January 2018.

1 and Belluno) for which the final assignment is still not available. More tenders are expected to reach the bidding phase during 2018.

2. Group structure and highlights

The following diagram sets out the Group's equity investments at 31 December 2017:



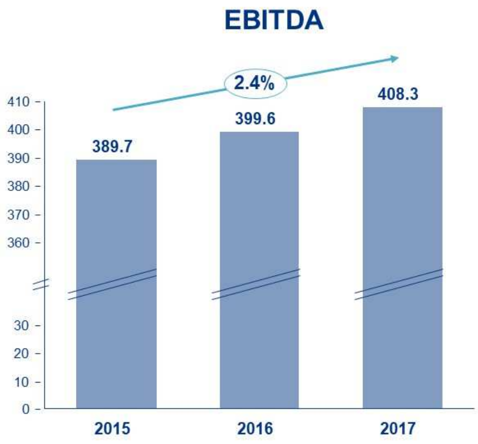
Regarding the Group key figures, the following table shows the key operating, income statement and statement of financial position indicators of the Group:

	31.12.2017	31.12.2016	2017 - 2016
Active concessions:	1,943	1,943	-
Active redelivery points:	3,918,100	3,900,186	17,914
Distributed Gas (Natural gas and LPG) in millions of cubic metres:	5,743	5,455	288
EBITDA in millions of euro:	408.3	399.6	9
Net income in millions of euro:	121.6	129.5	(8)
Managed networks in kilometers:	58,589	58,244	345

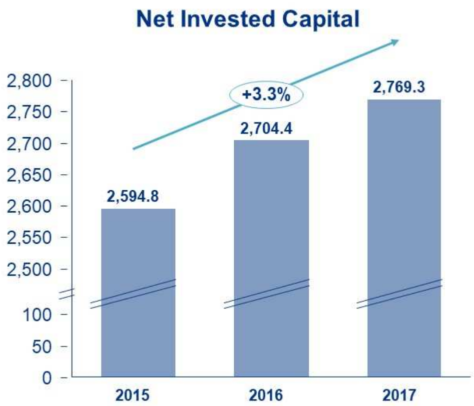
	31.12.2017	31.12.2016	2017 - 2016
Net financial position in millions of euro:	2,009.2	1,984.0	25
Net invested capital in millions of euro:	2,769.3	2,704.4	65

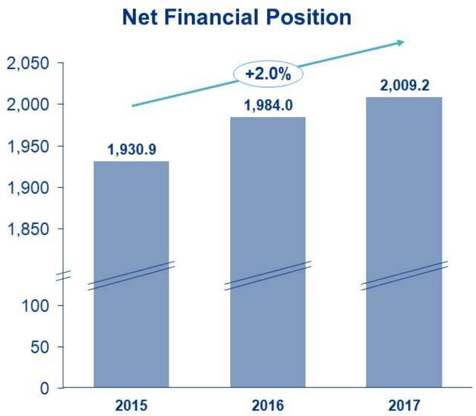
In order to better appreciate the development of some fundamental parameters for the Group over time, the diagrams below show the trend in the main income statement and statement of financial position indicators. For an analysis of the reported figures, reference should be made to section "Results of the 2i Rete Gas Group":

Trend in EBITDA from 2015 to 2017:

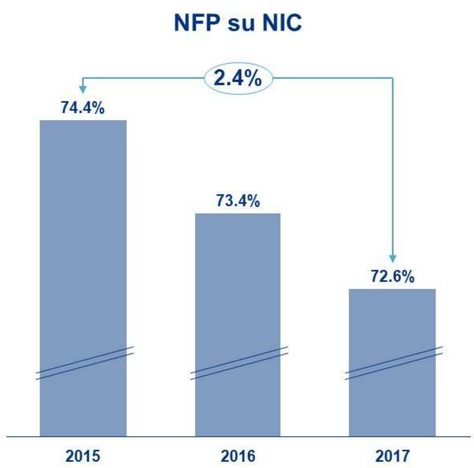


Trend in Net Invested Capital and Net Financial Position from 2015 to 2017:





In order to better appreciate the asset trend over the years, the diagram below shows the ratio of the Net Financial Position to Net Invested Capital:



3. Significant events during the reporting period

2017 was a particularly dynamic year for the Group from both the operational and financial viewpoint.

As for operational development, in October, 2i Rete Gas S.p.A. signed an agreement with the Spanish group Gas Natural Fenosa to sell 100% of the share capital of Nedgia S.p.A. and Gas Natural Italia S.p.A.
This agreement was subject to the positive opinion of the Italian Competition Authority, a condition precedent which was fulfilled at the end of January 2018.
The assets, which were definitively acquired on 1 February 2018, include 223 concessions, almost 460 thousand customers and a distribution network of around 7,300 km; 2i Rete Gas Impianti S.r.l., which is fully controlled by 2i Rete Gas S.p.A., was appointed to close the transaction.
At the date of drawing up these consolidated financial statements, the purchase price allocation process was not yet completed, since the Group is still acquiring the information needed to undertake the valuation process and the related disclosure required by IFRS 3.
As for the Group's other companies, in January 2017, 2i Rete Gas S.r.l. presented its offer to the Municipality of Milan for the concession of the distribution network of the Milan 1 ATEM while, in December 2017, the subsidiary Italcogim Trasporto S.r.l. was put into liquidation, since the company no longer had any assets.

In terms of financial operations, in January 2017, the Parent Company bought back and cancelled 225 million euro of the nearest to maturity tranche of the outstanding debenture loan and at the same time updated the prospectus of the EMTN (European Medium Term Notes) Programme.

In February 2017, the same company also proceeded to buy, cancel and reissue the new tranche of the debenture loan for a total of 435 million euro followed, in October 2017, by the issue of a new 550 million euro debenture loan under the approved EMTN programme and a subsequent additional issue for a further 180 million euro.
The final two transactions were part of the pre-financing activity for the purchase of the assets of Nedgia S.p.A. and Gas Natural Italia S.p.A.

Finally, in May and June 2017, as part of the annual rating review by Standard and Poor's and Moody's, the Company disclosed the performance of its business and the key metrics for the two ratings agencies to assess its financial strength. Upon completion of that review, both agencies confirmed the rating attributed in previous years (BBB Stable Outlook and Baa2 Stable Outlook, respectively), and Standard and Poor's confirmed the so-called "Liquidity profile" (which focuses on the ratio of debt to liquid assets) as "Strong". Following the signing of the agreement with Gas Natural Fenosa to sell 100% of the share capital of Nedgia SpA and Gas Natural Italia SpA in October 2017, the Company provided the two rating agencies with an update of its business performance following the acquisitions. Upon completion of that review, both agencies confirmed once again the rating attributed during the year (BBB Stable Outlook and Baa2 Stable Outlook, respectively), and Standard and Poor's assessed the so-called "Liquidity profile" as "Adequate".

4. Results of the 2i Rete Gas Group

When commenting on its income statement and statement of financial position data, the Group consistently uses over time certain popular non-IAS/IFRS measures. In particular, the income statement presents intermediate measures, such as EBITDA and EBIT, which are the algebraic sum of the items preceding them. As for statement of financial position data, similar considerations apply to net invested capital, net financial position, ESMA financial position, adjusted financial position, and accounting net financial debt, which are broken down in the following tables. As the measures used by the Group are not defined in the reference accounting standards, their definitions may not be aligned with those adopted by other companies/groups, and therefore they may not be comparable.
The result from operations for the year is shown in the table below and has been obtained by reclassifying the income statement data in accordance with operational criteria compliant with international practice.

Millions of euro	31.12.2017	31.12.2016	Change
Revenue	**1,028.8**	**930.5**	**98.3**
Transport and sale of methane gas and LPG	562.3	558.1	4.2
Connection fees and accessory rights	14.7	19.5	(4.8)
Other sales and services	23.3	21.0	2.3
Revenue from intangible assets/assets under construction	238.1	207.1	31.0
Other revenue	190.4	124.7	65.6
Operating costs	**(620.5)**	**(530.9)**	**(89.6)**
Labour costs	(110.3)	(118.3)	8.0
Raw materials and inventories	(79.0)	(83.5)	4.5
Services	(239.1)	(207.6)	(31.5)
Other costs	(188.6)	(112.7)	(76.0)
Allocations to provisions for risks and charges	(4.6)	(9.0)	4.4
Increase in fixed assets not subject to IFRIC 12	1.1	0.2	0.9
EBITDA	**408.3**	**399.6**	**8.7**
Amortisation, depreciation and write-downs	**(161.2)**	**(155.9)**	**(5.3)**
Amortisation, depreciation and impairment losses	(161.2)	(155.9)	(5.3)
EBIT	**247.1**	**243.6**	**3.5**
Net financial income (expenses) and income (expenses) from equity investments	(73.0)	(47.4)	(25.6)
Pre-tax income	**174.1**	**196.2**	**(22.1)**
Income taxes for the year	(52.5)	(66.7)	14.3
Net income (expenses) from continuing operations	**121.6**	**129.5**	**(7.8)**
Net income (expenses) from discontinued operations	**-**	**-**	**-**
Net income for the year	**121.6**	**129.5**	**(7.8)**

The interpretation of IFRIC 12, on which the presentation of the tables for the statutory and consolidated financial statements of the 2i Rete Gas Group is based, does not entail an impact on profits, but only the recognition of equal revenues and costs, which totalled 238.1 million euro in the year and relate to the construction of the distribution network infrastructure; therefore, for the purposes of easier analysis of any operational deviations, the income statement showing the consolidated revenues and costs, net of the impact of the application of the aforementioned interpretation, is also set out below.

Millions of euro	31.12.2017 without IFRIC 12	31.12.2016 without IFRIC 12	Change
Revenue	**790.7**	**723.4**	**67.3**
Transport and sale of methane gas and LPG	562.3	558.1	4.2
Connection fees and accessory rights	14.7	19.5	(4.8)
Other sales and services	23.3	21.0	2.3
Revenue from intangible assets/assets under construction	-	-	-
Other revenue	190.4	124.7	65.6
Operating costs	**(382.4)**	**(323.8)**	**(58.6)**
Labour costs	(56.7)	(70.8)	14.1
Raw materials and inventories	(5.5)	(6.7)	1.2
Services	(128.9)	(125.5)	(3.4)
Other costs	(187.8)	(112.1)	(75.7)
Allocations to provisions for risks and charges	(4.6)	(9.0)	4.4
Increase in fixed assets not subject to IFRIC 12	1.1	0.2	0.9
EBITDA	**408.3**	**399.6**	**8.7**

Revenue totalled 790.7 million euro, increasing by 67.3 million euro. From the viewpoint of revenues from natural gas and LPG transport, which stood at 562.3 million euro, there was an increase of 4.2 million euro owing to the normal impact of the tariff revenue cap, given the investments made in the previous years.

Connection fees and accessory rights of 14.7 million euro fell by 4.8 million euro compared to the previous year, when the figure was 19.5 million euro owing both to a lower number of accepted quotations but also owing to a different accounting treatment which was adopted to better connect the impact on the income statement of the contribution and that of the asset to which it relates. In addition, there were no concession disposals in the year with the related release of contribution.

Revenue from other sales and services totalled 23.3 million euro and was slightly up compared to the previous year, mainly due to the trend in revenue for the connection and reconnection of customers in arrears, offset by lower revenue from the water sector as a consequence of the asset disposal programme the Company launched last year.
Other revenue mainly includes revenue for energy efficiency certificates and totalled 190.4 million euro, with a further increase on the previous year of 65.6 million euro. This performance was essentially attributable to the recognition of 161.4 million euro certificates purchased during the year (compared to 90.8 million euro in the previous year), as well as 14.1 million euro revenue pursuant to resolution 574/13. Compared to the previous year, there was a fall in capital gains from assets since there were no significant transfers of concessions to incoming operators in the year.

Operating costs totalled 382.4 million euro and rose by 58.6 million euro solely due to the extra costs for the purchase of energy efficiency certificates as commented on below.

Labour costs totalled 56.7 million euro, net of capitalisation, and were down 14.1 million euro compared to the previous year, due in part to the greater use of technical staff in the renewal of networks and plant and in part to the reduction in staff.
The cost of raw materials and inventories was slightly decreasing compared to the previous year (-1.2 million euro).

At the consolidated level, costs for services rose by 3.4 million euro overall, with lower costs for utilities (-0.6 million euro) and insurance premiums (-0.8 million euro), which, however, were more than offset by higher costs for availability and meter reading services outsourced to third parties (0.9 million euro) and for consulting services linked to the liability management exercise and to the preparation of the plans and the financial structure to enable the Group to undertake the acquisitions completed in 2018 (2.5 million euro). Costs for the use of third-party assets rose by 0.7 million euro overall, owing to the increase in concession fees due to the presence of the concession in Como for the whole year, albeit with a fall in costs for rentals, leases and hire fees.

Other costs rose 75.7 million euro, largely because the cost for the acquisition of energy efficiency certificates was up 72.2 million euro year-on-year, partially because the Company recognised higher accelerated capital losses as a result of the campaign to replace conventional meters and obsolete networks (4.5 million euro).

Finally, net allocations to provisions for risks and charges fell by 4.4 million euro because of the usual changes in the provisions, which, over the period, saw the release of provisions for the dispute over the purchase price of Genia Distribuzione S.p.A. which was settled, as well as the closure, wholly in the Company’s favour, of the decade-long dispute with the Syrian Ministry of Housing regarding the correct operation of a purification plant.

EBITDA therefore amounted to 408.3 million euro, further up 8.7 million euro compared to the prior-year period (399.6 million euro) as a result of both the increase in revenue and the decline in labour costs.

Amortisation, depreciation and write-downs, slightly up on the previous year, totalled 161.2 million euro and are mainly relating to the amortisation of intangible assets.

EBIT totalled, therefore, 247.1 million euro while in 2016 it amounted to 243.6 million euro.

Financial income and expenses, with a negative balance of 73 million euro, fell compared to the previous year solely due to the aforementioned liability management exercise, which entailed one-off costs for the buy-back of a portion of the previous debenture loan. Net of this transaction, these costs would be in line with the previous year.

Pre-tax profit totalled 174.1 million euro and was thus down by 22.1 million euro compared to 2016, mainly due to higher one-off financial expenses in the year.

The Group's income taxes for the year amounted to 52.5 million euro (they had a negative impact of 66.7 million euro in 2016). This was in line with the normal tax trend, taking account of the pre-tax profit.

As a consequence of the above, the net income for the year was 121.6 million euro, down by 7.8 million euro compared to the previous year.

The financial position for the year is shown in the table below. This was obtained by reclassifying the statement of financial position in accordance with operational criteria.

Millions of euro	31.12.2017	31.12.2016	Change
	A	B	A-B
Net fixed assets	**2,739.2**	**2,663.2**	**76.0**
Property, plant and equipment	37.5	37.8	(0.3)
Intangible assets	2,937.4	2,862.7	74.6
Equity investments	3.1	3.4	(0.3)
Other non-current assets	51.8	45.1	6.7
Other non-current liabilities	(311.4)	(303.1)	(8.3)
Fair value of derivatives	21.0	17.4	3.6
Net working capital:	**89.0**	**106.0**	**(17.0)**
Inventories	19.0	20.3	(1.3)
Trade receivables from third parties and the Group	273.9	234.1	39.8
Net receivables/(payables) for income taxes	19.3	(5.7)	25.1
Other current assets	172.4	181.1	(8.7)
Trade payables to third parties	(208.1)	(166.7)	(41.4)
Other current liabilities	(187.5)	(157.0)	(30.5)
Gross invested capital	**2,828.2**	**2,769.2**	**59.1**
Other provisions	**58.9**	**64.7**	**(5.8)**
Post-employment and other employee benefits	46.0	48.1	(2.1)
Provisions for risks and charges	86.3	84.7	1.6
Net deferred taxes	(73.4)	(68.0)	(5.3)
Net invested capital	**2,769.3**	**2,704.4**	**64.9**
Assets held for sale	**2.1**	**-**	**2.1**
Liabilities held for sale	**2.3**	**-**	**2.3**
Equity	**759.9**	**720.4**	**39.5**
Net Financial Position	**2,009.2**	**1,984.0**	**25.2**

Net fixed assets, which mainly represent intangible assets related to gas distribution concessions, totalled 2,739.2 million euro, up 76 million euro compared to 31 December 2016.

The rise of 74.6 million euro recorded in the item “intangible assets” was the net result of new investments of 252.8 million euro, in addition to decreases of 23.3 million euro, reclassifications of available-for-sale assets of 1.5 million euro and amortisation in the year of 153.4 million euro.

The decrease of 0.3 million euro in the item “Property, plant and equipment” was due to new investments (5.7 million euro), disposals (1.0 million euro) and depreciation and impairment losses (5.0 million euro).

At consolidated level, equity investments decreased by 0.3 million euro thanks to sale of the investment in CBL Distribuzione S.p.A., a company that is no longer interesting for the Group, while the increase in “other non-current assets” and “other non-current liabilities”, of 6.7 million euro and 8.3 million euro respectively, was due, in the former case, to the increase in receivables due from the Fund for Energy and Environmental Services (CSEA) caused by the replacement of conventional meters which are not fully amortized with smart meters, while, for the latter, it was due to higher medium-/long-term deferred income for connection fees, property subdivision, plant transfer and network extension fees.
Finally, the fair value of outstanding derivatives increased further at 31 December 2017, reaching a value of 21 million euro.

Net working capital totalled 89 million euro and fell by 17 million euro compared to the previous year.
Specifically, trade receivables rose by 39.8 million euro, against an increase in other current liabilities connected to the increase in the items transferred to CSEA. Other current assets fell mainly due to the lower receivable for energy efficiency certificates thanks to the new means of payment on account used by CSEA.
Given the aforementioned changes, which overall tend to offset each other, trade payables rose by 41.4 million euro owing to the higher level of investment in the year, thus representing the most significant item in the reduction of net working capital.
Income tax receivables only partly offset this trend, reflecting the payments on account made in the year on the basis of the historical tax rates for 2016, generating an increase of 25.1 million euro and a net credit to be used in the following year.
Finally, there was a negative change in inventories in the year of 1.3 million euro.

Therefore, due to the combined effect of the changes in net long-term fixed assets and net working capital, gross invested capital increases by 59.1 million euro from 2,769.2 million euro in the previous year to 2,828.2 million euro at 31 December 2016.

Other provisions, totalling 58.9 million euro, were down 5.8 million euro overall, largely because of the change in the provision for deferred taxes.

Therefore, net invested capital increased from 2,704.4 million euro in the previous year to 2,769.3 million euro, up by 64.9 million euro.
Assets and liabilities held for sale included the assets and liabilities regarding the Villasanta business unit and the water concession of Moscufo which, at 31 December 2017, were being disposed of.

Equity rose from 720.4 million euro in 2016 to 759.9 million euro at 31 December 2017, due to the net impact of the following changes:

- 85 million euro decrease following the ordinary dividend payout;
- 2.9 million euro positive change in the reserves for derivative instruments and other reserves, net of the relevant tax impact;
- 121.6 million euro increase following the recognition of the result at 31 December 2017.

The table below shows the breakdown of the items that make up the accounting net financial position, the net financial position and the ESMA net financial position:

Millions of euro		**31.12.2017**	**31.12.2016**	**Changes**
Medium-/long-term bank loans	25	(425.0)	(270.0)	(155.0)
Medium-/long-term debenture loans	25	(2,394.9)	(1,890.0)	(504.9)
Cash and cash equivalents with third parties	21	816.1	183.2	632.9
Short-term financial receivables	19	0.0	0.9	(0.9)
Other current financial assets	20	0.0	0.0	(0.0)
Current financial liabilities	35	(19.6)	(21.1)	1.5
ESMA net financial position		**(2,023.3)**	**(1,997.0)**	**(26.3)**
Non-current financial assets	15	0.7	0.8	(0.0)
Adjusted net financial position		**(2,022.6)**	**(1,996.2)**	**(26.4)**
Non-current financial assets - costs on loan	15	0.5	0.6	(0.1)
Adjustment of payables due to costs on loan (IAS 39)	25	12.9	11.6	1.3
Net Financial Position		**(2,009.2)**	**(1,984.0)**	**(25.2)**
Positive fair value of derivatives	20	21.0	17.4	3.6
Accounting net financial debt		**(1,988.2)**	**(1,966.6)**	**(21.6)**

The net financial position moves from 1,984.0 million euro in 2016 to 2,009.2 million euro at 31 December 2017. The Adjusted net financial position instead went from 1,996.2 million euro to 2,022.6 million euro, mainly due to investments and the one-off liability management exercise. Net of the amortised cost and the amount of the derivative, accounting net financial debt totalled 1,988.2 million euro compared to 1,966.6 million euro in the previous year.

Millions of euro	31.12.2017	31.12.2016
A) Adjusted NFP	**(1,996.2)**	**(1,949.6)**
A) Acquired NFP		
EBITDA	408.3	399.6
Write down of receivables	(2.8)	(1.8)
Capital (gains)/losses	19.2	11.2
Income taxes for the period	(52.5)	(66.7)
B) GROSS CASH FLOW	**372.2**	**342.3**
Change in net working capital	18.7	(37.5)
Change in provisions (risks and charges, post-employment benefits, deferred tax assets and liabilities)	(6.6)	7.4
Change in other non-current assets	(6.7)	(13.0)
Change in other non-current liabilities	8.3	7.0
ADJUSTMENT TO PROVISIONS FOR DERIVATIVES		
C) OPERATIVE CASH FLOW	**386.0**	**306.1**
Net investments	(253.4)	(226.8)
Investments in financial assets	0.4	0.1
D) FREE CASH FLOW	**133.0**	**79.5**
Financial income/(expenses)	(73.1)	(47.6)
Adjustment for changes in amortised cost and payable for fees	(1.2)	6.6
Payment of dividends	(85.0)	(85.0)
Change in equity reserves	(0.0)	-
E) CASH FLOW FROM FINANCING ACTIVITIES	**(159.3)**	**(126.1)**
F) CHANGE IN DEBT (D+E)	**(26.4)**	**(46.6)**
G) FINAL NFP - Adjusted (A+F)	**(2,022.6)**	**(1,996.2)**
IAS adjustment to cost of debt	13.4	12.2
NET FINANCIAL POSITION	**(2,009.2)**	**(1,984.0)**

This statement of cash flows enables representation of the change in adjusted NFP determined in accordance with the criteria used mainly by rating agencies.
Cash flow in the year was negative at around 26.4 million euro compared to a higher negative change in the previous year of 46.6 million euro, despite the increase in investment and the aforementioned liability management exercise.
Operative Cash Flow before investments had a positive balance from operations of 386 million euro compared to 306.1 million euro in the previous period, while net investments in the year (253.4 million euro), which rose by 26.6 million euro together with higher financial expenses (73.1 million euro with an increase of 25.5 million euro year-on-year), brought cash flows and the corresponding change in debt to the aforementioned negative figure of 26.4 million euro.

5. Regulatory and tariff framework

5.1 Regulation

During 2017, the *Autorità per l'energia elettrica, il gas ed il sistema idrico* (the *Regulatory Authority for Electricity, Gas and Water* called, as from 01.01.2018, *Autorità di Regolazione* *per Energia, Reti e Ambiente* – ARERA, the Regulatory Authority for Energy, Networks and the Environment – with powers also on the regulation and control of the cycle of waste, as a result of Italian Law No. 205 of 27 December 2017 – "2018 Budget Law") intervened in accordance with the guidelines and objectives that had already been largely set out in the 2015-2018 regulatory strategic framework.

During the period, the Authority issued numerous provisions that affected the Group and regarded the gas or water services sectors; among these, specifically for gas distribution, there were various provisions on tariffs, regulation of the metering service and the related service quality, regulation of arrears in the electricity and natural gas sectors and the default service for gas distribution, accounting and operational unbundling, energy efficiency targets and the contribution to obtain energy efficiency certificates from distributors which have taken on obligations, access to the gas distribution service, the network code and gas settlement, data exchange among operators and with the Integrated Information System (known as SII, *Sistema Informativo Integrato*) and application of the regulation implementing tenders to assign the gas distribution service, as well as isolated LNG networks and the update of the directives for connecting biomethane production plants to natural gas networks, the protection of end customers and regulation to settle disputes between end users and operators or managers, the social bonus (electricity, gas and water) and reliefs on electricity, gas and water bills for the communities struck by the earthquakes in Central Italy in August and October 2016 and, finally, checks in regard to operators.

Regulation on tariffs for the gas distribution and metering service

As part of the provisions in force for the 2014-2019 regulatory period, after revising the method for calculating the weighted average cost of capital (WACC) for all regulated infrastructure services in the electricity and gas sectors approved at the end of 2015 and the interim revision of the tariff regulation for gas distribution and metering services established at the end of 2016 for the 2017-2019 three-year period, at the end of 2017, the Authority, following the consultations undertaken on the issue, completed (Resolution 904/2016/R/gas of 27.12.2016) the revision, for 2018 and 2019, of the tariffs covering meter testing expenses and the costs of remote reading and management systems and concentrators. With this provision, in order to complete the proceedings started during the year, the standard costs of gas smart meters were also defined for 2018 and 2019 (with revision of the profit/loss sharing mechanism applied, but confirming the values applied in 2017 to G4 and G6 smart meters, which are involved in the ongoing mass replacement plan); the start of recognition of new investments in natural gas distribution networks as standard costs was also put back a year (starting from the investments made in 2019, for 2020 tariffs), owing to the need for further analyses to be carried by the technical work group including representatives from distribution companies and trade associations, which was set up during 2017.

In 2017, the Authority also set the final tariffs for distribution and metering services for 2016 (on the basis of the definitive financial data for 2015 as communicated by the companies), the provisional tariffs for 2017, the recognition of operating costs relating to remote metering and management systems and concentrators incurred by companies in the 2011-

2013 period, the usual periodic updates of some tariff components (general system charges for the natural gas sector and tariffs for other gases) and, at year end, the mandatory tariffs and bi -monthly equalisation payments on account for natural gas distribution and metering services for 2018.

Further information on tariffs is set out in section 0 “No further significant facts and/or aspects have currently been noted relating to the regulation of the relevant Authority.

Tariff framework".

Regulation on the quality of the gas metering service

Following the reform of the metering service adopted in 2015 and the further provisions adopted in 2016 on automatic compensation in the event of failure to make the readings available as agreed, updates were introduced (Resolution 522/2017/R/gas) to regulations on the quality of the metering service for redelivery points connected to natural gas distribution networks and on the performance of the metering service as set out in the 2014-2019 Regulations on the quality of gas distribution and metering services (known as RQDG, *Regolazione della qualità dei servizi di distribuzione e misura del gas*) as per Resolution 574/2013/R/gas, in order to improve the related service standards. This also had implications for the plan relating to the installation of gas smart meters and coming into force as from 01.01.2018.

Regulation on arrears in the electricity and natural gas sectors and the default gas distribution service

In relation to proceedings started at the end of 2016 and following the consultation undertaken on the issue, the Authority defined, by means of Resolution 376/2017/R/com, some changes to the regulation of arrears in retail markets, in order to integrate and coordinate it between the two sectors of electricity and natural gas, reviewing and clarifying, in particular, the means of applying compensation in the event of failure to communicate the outcome of the disconnection in order to guarantee correct application.

In addition, as a conclusion of the process started in 2016, the Authority defined (Resolution 513/2017/R/gas) detailed rules for the evaluation of requests to pay part or none of the penalties assessed on distribution companies for the failure to discontinue the service to redelivery points under the default distribution service. With these rules, some specific standard cases were identified on the occurrence of which, in relation to judicial action taken to disconnect the redelivery point, distribution companies can automatically benefit from partial exemption and it was also recognised that the time needed to undertake the judicial proceedings is not accounted for the purposes of assessing compliance with the deadline to carry out the physical disconnection of the redelivery points.

Accounting and operational unbundling

ARERA (Resolution 742/2017/R/com) started a process for general review of the provisions on accounting unbundling for the electricity, gas and water sectors and set out in the Integrated Act on Accounting Unbundling (known as TIUC, *Testo integrato unbundling contabile*) (Resolution 137/2016/R/com), aimed at the administrative simplification and improvement of the quality of information provided for regulatory purposes, as well as accounting unbundling requirements for electricity and gas companies, including those relating to the separation of the consolidated financial statements. Moreover, the proceedings also include the arrangements already started for accounting and administrative unbundling in the district heating/cooling segment (Resolution 111/2017/R/tlr) and accounting unbundling relating to small scale LNG services (Resolution 141/2017/R/gas).

During the year, the Authority also updated the information on operational unbundling, asking all the companies which operate in the businesses set out in the Integrated Act on Operational Unbundling (known as TIUF, *Testo integrato unbundling funzionale*) (Resolution 296/2015/R/com), including natural gas distribution, for information about their status and/or condition as a vertically integrated company or otherwise.

Energy efficiency targets and contribution to obtain energy efficiency certificates by distributors which have taken on obligations

As for the energy efficiency targets and the corresponding obligations to acquire the so-called white certificates by subjects who have taken on obligations, following the ministerial decree which set the national quantitative energy saving targets for the years from 2017 to 2020 (Italian Ministerial Decree dated 11.01.2017, published in the Official Gazette on 03.04.2017), in April, the Authority transmitted to the Italian Ministry of Economic Development as well as Gestore dei Servizi Energetici (a publicly-owned company promoting and supporting renewable energy sources in Italy) (Resolution 6/2017 DMRT) the data relating to the primary energy saving targets for 2017 (2i Rete Gas was assigned a target corresponding to 567,291 EEC).

In addition, following the audit on the trend in the market for energy efficiency certificates completed in April with Resolution 292/2017/E/efr, and with reference to the process for reviewing the calculation of the tariff fee for the EEC mechanism (Resolution 172/2017/R/efr), after holding a consultation on the matter in May, the Authority amended (Resolution 435/2017/R/efr) the rules for calculating the fee payable to obliged entities for meeting their energy efficiency targets in June. The new rules were then supplemented in September with a new provision (Resolution 634/2017/R/efr), which envisaged a gradual introduction of the accrual basis, replacing the previous cash basis, for the purposes of recognising the contribution for the certificates acquired in each year, and an update of market operating rules (already updated after Resolution 435/2017/R/efr) and the regulation for bilateral transactions within the scope of the white certificate mechanism was also approved.

In July, with Resolution 10/2017 DMRT and based on the previous calculation methods, the Authority set the final tariff fee for 2016 (€ 191.40/EEC) and, based on the new method, the estimated tariff fee (now known as the “reference” tariff fee) for 2017 (€ 170.29/EEC).

Access to the gas distribution service, network code and gas settlement

Concerning the relationships between distribution companies and network users (sales companies), with Resolution 465/2017/R/gas the Authority launched a process to review the gas distribution network code. Specifically, this aims to update aspects concerning invoicing, the rules governing guarantees, and the handling of non-compliance.

In addition, the Authority arranged (Resolution 625/2017/R/gas) the usual annual update of the percentages needed to define the standard usage profiles for 2017-2018, while, as regards gas settlement, it adopted (Resolutions 670/2017/R/gas and 782/2017/R/gas and Resolution 14/2017 - DMEA) the initial provisions for the method to be used to redetermine the physical and economic adjustment items for the past period, as from 2013 and up to the full implementation of the new regulation.

Data exchange among operators and with the Integrated Information System (SII)

Also in 2017, the Authority continued the adoption of provisions aimed at the gradual extension, also to the gas sector, of the so-called Integrated Information System (SII), which has already been launched for the electricity sector and aimed, in the intention of the Authority, to facilitate information flows between energy distributors and sellers in many of the processes that they manage.

Specifically, concerning metering, with Resolution 434/2017/R/gas the Authority decided to start a trial, in October 2017, to allow distribution companies to make gas meter readings available to the SII as well as sales companies. In addition, the criteria and methods were established (Resolution 593/2017/R/gas) by which regulation of the compensation system among sales companies in case of switching is implemented within the SII and is extended from the electricity sector to the natural gas sector too, with some operational/procedural implications also for distribution companies. In addition, provisions were approved (Resolution 783/2017/R/com) regarding the methods for managing, through the SII, the process of withdrawing from electricity and gas supply contracts in order to switch supplier.

Still with reference to switching, the Authority launched a consultation (DCO 544/2017/R/gas) on its approach to the reform of this process on the natural gas retail market, aiming to centralise it within the SII, as it has already done in the electricity sector, but it still has not followed up the consultation yet by adopting the related provision.

Finally, in reference to the natural gas sector, provisions were approved in December (Resolution 850/2017/R/com) regarding the extension and updating of the data contained in the SII's official central register.

Provisions enabling the regulation for gas distribution service tenders

In May 2017, the Authority adopted (Resolution 344/2017/R/gas) provisions to streamline the analysis of the differences between the residual industrial value and the RAB in cases where Municipalities can show full application of the Guidelines prepared by the Italian Ministry of Economic Development on 7 April 2014 (nonetheless, such streamlining does not apply to redemption values relating to distribution networks located in the Municipality of the area with the most redelivery points and in the other Municipalities of the area with over 100,000 inhabitants and over 10,000 redelivery points). Subsequently, in implementation of the provisions of Italian Law 124/2017 (the annual market and competition law) and following a consultation in November, provisions were adopted (Resolution 905/2017/R/gas) to streamline the assessment process:

- of redemption values, in the case of a difference between the residual industrial value and the RAB at the aggregate level of an area not exceeding 8%, with a difference per individual Municipality not exceeding 20%;
- of the tenders relating to the assignment of the natural gas distribution service;

adopting, in this regard, complete documents on the methods for assessing the redemption values and the tenders, which combine new provisions with those previously applied by the Authority.

In addition, it also adopted measures concerning observations on the amount of the repayment and/or the tender documentation presented by the contracting authorities for some ATEM (minimum territorial areas).

Regulation on isolated LNG networks

As regards LNG-powered isolated networks, the Authority, in order to implement the provisions of art. 14 of Italian Legislative Decree 257/16, started proceedings in order to determine the tariff treatment of distribution and metering services and to define the considerations relating to the sales service.

Directives for the connection of biomethane production plants to natural gas networks

As for the regulation regarding the injection of biomethane in the network, with the cancellation of the standstill provision following the publication of CEN EN 16723-1, implemented in Italy with the publication of UNI EN 16723-1, the Authority started proceedings to update the directives for the connection of biomethane production plants to natural gas networks, which, by rounding out the relevant regulatory framework, should facilitate connection requests.

Protection of end customers and regulation to settle disputes with operators or managers

As regards the protection of end customers, the Authority approved provisions (Resolution 228/2017/R/com) relating to the service restoration procedure in the case of electricity and/or natural gas supply contracts which have been put into operation but challenged, with operational implications also for the activities managed by distribution companies.

In addition, the regulation on the decision-making process to be used in regulated sectors to settle disputes between end customers and operators or managers, which have not been settled through conciliation, was approved (the so-called "third level" of protection, in which the settlement of the dispute is achieved through an administrative decision taken by the Authority).

Regulation on the social bonus (electricity, gas and water)

During 2017, changes and updates were approved (Resolution 94/2017/R/com) to the Consolidated act on the means of applying compensation schemes for expense incurred by indigent domestic customers for electricity and gas supplies (TIBEG), on the basis of the Decree of the Ministry of Economic Development dated 29.12.2016 and with some impact also on the management of the activities for which distribution companies are responsible. In addition, the means were defined (Resolution 917/2017/R/idr) for applying, as from 2018, the water social bonus for the supply of water to domestic users in a state of social and economic difficulty.

Relief measures concerning the earthquakes occurred in Central Italy in August and October 2016

Following the provisions which were adopted in 2016, the Authority approved further reliefs on electricity, gas and water bills for the communities affected and with management and operational implications for the management of such reliefs by distributors, sellers and end customers (Resolutions 252/2017/R/com, 517/2017/R/com, 608/2017/R/com and 5/2017 - DACU).

Checks on operators

As regards checks on operators, the Authority organised the usual annual campaign of 50 telephone checks and inspections of gas distribution companies in regard to the regulation on the gas emergency service, as well as the usual campaign of 60 technical controls relating to the level of odorisation, the effective gross calorific value and the gas pressure, to be carried out between 1 October 2017 and 30 September 2018.

The Authority also organised a program of 5 inspections for 2017 regarding service safety recoveries for natural gas distribution companies from among those which receive the largest incentives or which have not yet been inspected, to be carried out by 31.03.2018.

As regards water services, in 2017, the Authority also adopted various provisions regarding the regulation of tariffs and the quality of the integrated water service, with an impact also on the residual water management situations of 2i Rete Gas S.p.A.

5.2 Other significant events and/or aspects

As part of the program of checks carried out every year by ARERA on the service safety and the gas emergency service, on 25 and 26 July, the Authority carried out an inspection regarding the implementation of the regulation on the gas emergency service pursuant to Resolution 574/2013/R/gas, in reference to the distribution plant in Lecce and to the 2009-2017 period. No findings or challenges to the Company’s actions were raised either during the checks undertaken by the inspection staff or subsequently.

Following the checks carried out in 2016, in 2017, the Authority did not complete the calculation of the bonuses and penalties for the safety levels recorded in 2015 by natural gas distributors. The approval and payment of the 2015 bonuses is therefore expected in the first half of 2018, during which the preliminary work for calculating the bonus/penalty amounts for the safety levels achieved in 2016 should also start.

By means of its provision dated 05.12.2017 (Resolution 808/2017/E/gas), ARERA reached a decision regarding the complaint made by 2i Rete Gas against Snam Rete Gas (SRG) for interruption of the gas transport service on 10.03.2014 with consequent interruption of the distribution service in the Municipality of Gravina in Puglia (province of Bari), agreeing:

not to accept the complaint relating to the request to recognise SRG's responsibility for the interruption given that, on the basis of the available elements, for the Authority it is not possible to ascertain the existence of a causal connection between the operator's conduct and the interruption;

to accept the complaint regarding the recognition, in terms of service quality regulation, of SRG's error in classifying the causes of the event as "external causes, in the sense of damage caused by third parties for events which cannot be charged to the transport company" instead of as "causes which can be charged to the transport company, … including causes which have not been ascertained".

During 2017, the Authority performed numerous consultations on issues regarding gas distribution and the Company or its subsidiaries, with the publication of documents in regard to which to the Company has always put forward its observations and proposals on all the issues which it considers relevant.

The Authority has not adopted any material measures for the sectors concerned after 31 December 2017.

No further significant facts and/or aspects have currently been noted relating to the regulation of the relevant Authority.

5.3 Tariff framework

In 2017, the distribution and metering tariffs continued to apply in accordance with the principles established in Resolution 367/2014/R/gas for the fourth regulatory period (2014-2019), in which the revenue elements related to remuneration and amortisation and depreciation are determined on the basis of the annual update of the net invested capital (RAB), taking account of the (net) investments made in the year t-1. The principles of the aforementioned Resolution were partially amended by Resolution 583/2015/R/com, which introduced a revised method for calculating the weighted average cost of capital (WACC) for all regulated infrastructure services in the electricity and gas sectors and partially by Resolutions 775/2016/R/gas and 904/2017/R/gas in reference to operating costs, the costs of meter checks, the centralised costs for the remote reading/remote management/concentrator system ("TEL" and "CON") and to the standard costs of investments in G6 or below meters .

As a result of these resolutions, the WACC for natural gas distribution and metering for the 2016-2018 three-year period was set to 6.1% and 6.6%, respectively.

The invested capital of the distribution companies (RAB) continues to be broken down into two categories:

- localised invested capital;
- centralised invested capital.

The valuation criterion for localised invested capital in distribution and metering is based essentially on the revised historical cost method. For the 2018 tariffs, the new investments in metering (G6 or below smart meters) will be determined as the average of the revised historical cost and the standard cost set by the Authority. With Resolution 904/2017/R/gas, the Authority also envisaged valuation of the new 2019 investments in distribution on the basis of standard costs, subject to establishing the related price-list by the end of November 2018, to be applied on the 2020 tariffs.

The valuation criterion for centralised invested capital is based on a parametric method, except for assets regarding remote metering/remote management/concentrator systems, which are valued at effective cost. Starting from the 2018 tariffs, the invested capital of such assets must take account of a ceiling which includes the remuneration of capital and the recognition of operating costs.

As for the other updates as set out in Resolutions 775/2016/R/gas and 904/2017/R/gas, operating costs, which are recognised by the Authority on the basis of the opening levels of the operating costs and established in Resolution 367/2014/R/gas, were updated with inflation and subjected to an X-factor of 1.7% for the distribution service and 0% for the metering and marketing service for the 2017-2019 three-year period, while the unit cost of the marketing service increased and was set at € 2.0 per redelivery point. The costs of meter checks (Cver difference) were definitively set, for the 2017 tariffs, at € 50 per redelivery point, while only the costs effectively incurred will be remunerated by the 2018 tariffs.

The Authority arranged to determine the “provisional” reference tariffs for 2017 for natural gas distribution and metering services, which were calculated on the basis of the “provisional” financial data for 2016 (t-1), with Resolution 220/2017/R/gas of 6 April 2017.

The “definitive” annual reporting on the 2016 investments for the purposes of determining the net invested capital of distribution and metering for 2017 occurred on 17 November, enabling the updating of the value of the 2017RAB. The Authority should publish the “final” 2017 tariffs including the above-mentioned changes in March 2018, and CSEA will apply them to the equalisation, which is scheduled to be calculated and settled by the end of 2018.

In the first months of 2017, the Authority set the “final” reference tariffs for gas distribution and metering services for 2016 with Resolution 145/2017/R/gas as supplemented by Resolution 288/2017/R/gas. During the same period, with Resolution 146/2017/R/gas, the Authority recalculated the tariffs of a number of players for the years 2009-2015.

Finally, with Resolution 541/2017/R/gas, the Authority redetermined retrospectively from 2009 (and up to 2013 or 2015) the tariffs for a list of locations of 2i Rete Gas where the local authorities hold stakes in the methane gas distribution networks, in execution of Resolution 626/2016/R/gas. The Authority recognised the values which had already been declared by the local authorities only as from the year following the disclosure of the mandatory accounting information by the local authority. The Authority, owing to the continuation of the investigation, allowed 2i Rete Gas to submit, by 30 September 2017, a five-year plan to return the amounts subject to adjustment, without interest, starting from 2018. Adequate amounts were set aside in a provision for risks. In reference to Resolution 626/2016/R/gas and the outcomes of the inspection undertaken in June 2011, the company appealed to Lombardy’s Regional Administrative Court. The Company believes it can prove in court that the adjustment is unwarranted, given that the financial data reported by Local Authorities is substantially confirmed by the mandatory accounting information submitted to the Authority after the audit. It is also worth recalling that the current regulations, i.e. Italian Legislative Decree 118/2011 as amended and supplemented, allow local authorities to take action to complete the inventory entries for owned assets, including methane gas networks, until the closing of the 2016 or 2017 financial statements, depending on the size and/or choice of the municipalities.

With Sentence no. 733 of 15 March 2018, the Regional Administrative Court in Milan cancelled Resolution 626/2016/R/gas of the Authority, which reduced, in the municipalities involved, the tariffs due from 2009 to 2016 by applying the automatic tariff; the sentence is still subject to possible appeal.

In December, the Authority published, with Resolution 859/2017/R/gas, the 2018 mandatory tariffs for invoicing natural gas distribution and metering services, the amount of the bi-monthly equalisation payments on account, and the tariff options for gas other than natural gas. The same Resolution also approved the maximum amount that can be recognised in the tariff for higher costs arising from concession fees (COL) to be paid to municipalities pursuant to art. 46 bis of Italian Law Decree No. 159/2007. The Authority published the distribution and metering tariffs for gases other than natural gas that concern the Company on 28 December 2017 with Resolution 926/2017/R/gas.

6. Concession development and operation

The competitive bidding market for methane gas distribution service concessions saw, during 2017, the completion of a significantly reduced number of tenders compared to what is envisaged by the law: during the aforementioned year, only 3 ATEM tenders (Milan 1 – City and plant of Milan, Turin 2 – Plant of Turin, and Belluno) out of the 20 issued between 2015 and 2017 have been completed.
Specifically, besides the 3 completed tenders set out above, during 2017 the following were published:

- only one further ATEM tender (Varese 3 – South), besides the first 19 already called in previous years. With ruling No. 655/2017 dated 7 July 2017, Veneto's Regional Administrative Court cancelled the tender called by the Municipality of Venice acting as Contracting Authority for ATEM Venice 1 - Venetian Lagoon, and the terms for the following tenders are currently pending: Alessandria 2 – Centre, Cremona 2 – Centre and Cremona 3 – South, Massa and Carrara, Biella, Turin 3 – South West. Lastly, it should be noted that the Contracting Authority (Municipality of Lissone) has called off the tender for Monza and Brianza 2 – West.

- Two projects financing for individual concession, the first in the Municipality of Bonea (province of Benevento) (Official Journal of the Italian Republic 17.05.2017) approved by Italy's Ministry of Economic Development in derogation of Italian Legislative Decree No. 93 of 01.06.2011 (known as the “Third Energy Package”), the second in the Municipality of Pietraroja (province of Benevento) (Official Journal of the Italian Republic 30.08.2017), and a tender for the sale of gas and the operation of the network of the Industrial Consortium in the Municipality of Pozzilli (province of Isernia) (Official Journal of the Italian Republic 15.05.2017);

- a non-ATEM tender authorised by the Italian Ministry of Economic Development as an exception to the provisions of Italian Legislative Decree no. 93 of 01.06.2011 (the so-called “Third Energy Package”), called by San Nicola in Baronia (province of Avellino) as the leading Municipality also on behalf of the Municipalities of Carife, Castel Baronia, San Sossio Baronia, Campitella, Trevico, Vallata and Vallesaccarda (Official Journal of the European Community 29.08.2017).

6.1 Participation in tenders called by individual municipal administrations

As for the procedure used for non-ATEM tenders, 2i Rete Gas S.p.A. submitted an offer in the tender called by San Nicola in Baronia (province of Avellino) as the leading Municipality also on behalf of the Municipalities of Carife, Castel Baronia, San Sossio Baronia, Campitella, Trevico, Vallata and Vallesaccarda (network construction to be completed for a total of 2,100 prospects); the tender was awarded to us on 24.11.2017 and verification of the prerequisites is underway. As regards this procedure, it is noted that the outgoing operator, SI.DI.GAS S.p.A., challenged the tender rules and filed an appeal to suspend the award in favour of 2i Rete Gas S.p.A. At the hearing held on 10.01.2018, the appellant company SI.DI.GAS S.p.A. asked the discussion of the request for suspension to be combined with the discussion on the dispute at the public hearing already set for 7.02.2018.

6.2 Activities on “ATEM tenders”

On 16.01.2017, 2i Rete Gas S.r.l., a company subject to direction and coordination of 2i Rete Gas S.p.A., made a bid in the ATEM tender Milan 1 – City and Plant of Milan (nearly 839,000 end users, approximately 1.3 billion euro contract value for the operation of the Metropolitan City of Milan and other 6 neighbouring Municipalities). The Contracting Authority assessed the industrial plans submitted by 2i Rete Gas S.r.l. and the other company taking part in the tender, Unareti S.p.A. (an A2A group company), which were both accepted following the examination of administrative documents. Following the express request of the Contracting Authority, the bidders extended the validity of their offers for a further 180 days, and so up to 15.07.2018, to allow the Tender Committee to complete the assessment of the submitted offers.
On 7 March 2018, the Chairman of the Tender Committee communicated the final score as the sum of the score for the technical offer and that for the financial offer attributed to the two bidders, indicating an advantage of around 5 points for Unareti.
Since both offers were above the threshold score identified by the law, at the end of the Committee’s session, the Chairman communicated the start of the assessment of the offers. The Company, which has requested access to the official documents, is waiting to be able to check the overall tender documentation in order to safeguard its interests.

In addition, on 01.09.2017, the Parent Company made a bid in the ATEM tender Belluno (nearly 48,000 end users, approximately 90 million euro contract value for the operation of the Municipality of Belluno and other 63 neighbouring Municipalities). Erogasmet S.p.A. filed an appeal against the tender. The Regional Administrative Court in Venice suspended the

challenged documentation at first but, with ruling no. 78 of 24.01.2018, it rejected the appeal on the grounds that the Contracting Authority had acted in compliance with regulations.
Also during 2017, the Group has been preparing and transmitting all the necessary documentation to the Municipal Administrations and/or the Contracting Authorities that requested it in order to draft and subsequently issue the call for tenders. This information will have to be updated, if necessary, when the actual tender takes place, and is required by art. 4 (Disclosure obligations for operators) and art. 5 (Compensation to the outgoing operator) of Italian Ministerial Decree 226/2011.

6.3 Concessions awarded

As for the concession of the Municipality of Castronno (approximately 2,200 end users), which had already been awarded through a tender in 2011, 2i Rete Gas S.p.A. signed the new service agreement on 27.02.2017 and started operating the concession on 01.03.2017.

6.4 Concessions lost

Concerning the tender for the concession of the natural gas distribution service issued by the Municipality of Manfredonia (province of Foggia) (approximately 16,000 end users), Apulia's Regional Administrative Court, in its ruling No. 1150 dated 29.07.2015, upheld the appeal filed by 2i Rete Gas reinstating it in the tender process and stripping Gasman S.r.l. of the concession. Said company filed an appeal with the Italian Council of State, which, with court order No. 1826 dated 05.05.2016, appointed an expert witness to answer additional technical questions besides the ones already asked of the Auditor at the first instance hearing, which ended in favour of 2i Rete Gas. With a court order dated 08.08.2016, the Italian Council of State postponed the hearing scheduled for 08.09.2016 to 24.112016. With ruling No. 258 dated 23.01.2017, the Italian Council of State upheld Gasman's appeal and reversed the decision of Apulia's Regional Administrative Court, which raised no objections to 2i Rete Gas's bid and therefore allowed 2i Rete Gas to participate in the call for tenders.

6.5 Participation in tenders for the acquisition of companies

2i Rete Gas S.p.A. took part in the tender to acquire some companies of the Gas Natural Fenosa Group in Italy, with an offer which proved successful. On 13.10.2017, the Company signed with Gas Natural Fenosa S.A. the agreement to buy 100% of the share capital of Nedgia S.p.A., the seventh biggest player in the gas distribution sector in Italy (around 460,000 end users in 226 municipalities with a network of slightly more than 7,100 km) and for Gas Natural Italia S.p.A., a service company of the Spanish group that operates in Italy, for which it presented a binding offer on 25.09.2017.

6.6 Recovery of sums arising from the transfer of plants

During the year, an agreement was signed on the means of payment for the Fontanella plants, with related receipt during the year, as well as for the Sabbioneta plants, for which a repayment plan was agreed with the municipal administration concerned.

7. Support for gas transport activities

7.1 Main Regulatory Changes

As regards gas transport, during 2017, ARERA issued several measures which are set out and explained in brief in section 5.1 “Regulation”.
From an operating viewpoint, the regulatory changes introduced with Resolution 413/2016/R/com of 21/07/2016 as amended and supplemented have been implemented. Said provision approved the new consolidated act of the regulations on the commercial quality of sales services and amended aspects of the regulations on the quality of electricity and gas distribution services; the changes are effective from 01.07.2017.
In addition, it should be noted that the regulatory changes provided for by the decree issued on 27 June 2017 by Italy’s Ministry for the Economy and Finance were implemented. Said decree governs the implementation of art. 1 of Italian Law Decree No. 50 of 24 April 2017 concerning the VAT split payment mechanism.
The decree also contained the 2017 list of public administration bodies included in the consolidated income statement, the subsidiaries of central and local public administration bodies, and the listed companies included in the FTSE MIB index that are subject to the new provisions.
The interventions concerned the updating of invoicing systems in accordance with the bills for July 2017, the first month in which the decree became effective.
In addition, in December 2017, the list of subjects to which the new provisions for 2018 must be applied was consolidated.

7.2 Relations with Traders and Customer Care

Major customers

In 2017, the Group continued in the management of the gas distribution business in undertaking normal commercial relations with its customers (gas sales companies or traders).
The Group’s main customers are Italian companies which are leaders on the gas market. In particular, customers whose contribution to turnover was over 5% of the total during the year were:

- Enel Energia S.p.A. with 41.7%
- Engie Italia S.p.A. with 11.7%
- E.On Energia S.p.A. with 8.1%

Commercial quality

The level of commercial quality is measured by means of a general company index showing the percentage of services not carried out within the standard time frames set by ARERA, pursuant to the provisions of Resolution No. 574/2013 and with reference to connections, reconnections, disconnections, quotations, and the execution of both simple and complex work.
The general quality index, pursuant to the provisions of Resolution No. 574/2013, was 0.10% and in line with the previous year, and is 0.09% for the specific levels (0.10% in the prior year) and 0.83% for the general levels (0.72% in the prior year).

Front Office

In 2017, as in 2016, the Group managed the commercial services requested by the sales companies almost exclusively through the Four portal; most sales companies have now adopted this tool, both the "web" and the "application to application" solutions.

The processes for the connection of last resort services, the supply of last resort (known as FUI, *fornitura di ultima istanza*) and the default service, remained numerous both in terms of activations due to delayed payments by end customers to their respective sales companies and for other reasons, such as termination of contracts, requests from sales companies due to the impossibility of ending or interrupting supply, and loss of the requirements to access the distribution network of the sales company.
At 31 December 2017, the number of last resort services activated was 17,017, including 3,608 FUI and 14,109 Default connections.
As in previous years, the Group kept on discontinuing the service to the Redelivery Points under the Default Service in accordance with applicable laws.
The Group is increasingly automating the default service by integrating new IT tools in the application map to manage the process end-to-end.

In 2017, there were on average 29,200 requests to switch providers per month, for a total of approximately 351,073 switching requests, of which 291,038 were accepted (24,200 per month on average).

7.3 Gas Invoicing and Balancing

Invoicing of Transport and Services

The invoicing of the transport service and commercial services was done monthly and regularly during 2017.

Following the earthquakes occurred on 24 August 2016 and thereafter, last year the Company had suspended transport invoicing for nearly 12,500 redelivery points. The suspension concerned only the municipalities included in the area affected by the earthquake (*Cratere Sismico*), as defined by Italian Law Decree No. 189 of 17 October 2016 (Annex 1).

During the second half of 2017, the suspension was extended to other municipalities included in the so-called "*Cratere Sismico*" (Annex 2 and 2bis), for a total of around 25,000 redelivery points.

Resolution AEEGSI 252/2017 of 18 April 2017 defined the tariff relief for the communities struck by the seismic events: as for the transport service, some of the components which make up the mandatory tariff to be invoiced to companies that sell service to end customers who were the holders of service agreements at the dates of the 3 seismic events (24 August, 26 October and 18 January 2017) were reduced to zero.

As for service invoicing, the fees for the connection and activation of emergency accommodations as well as for the deactivation of the redelivery points included in the areas affected by earthquakes and their subsequent reactivation were reduced to zero. The resolution established how to invoice the so-called relief measures at the request of the end customer, as well as how and when the outstanding balance with the sales companies, that are the holders of the service agreements eligible for relief, will be settled.

The second part of the "Zero Print" project for the Service Invoicing Area was completed in the year. This project has allowed to change the delivery method for invoices and the relevant attachments concerning the services provided to sales companies, moving from despatch via the postal service to the use of certified email and publication on the FOUR portal, ensuring and speeding up their delivery as well as curbing mailing costs.

Finally, 2i Rete Gas S.p.A. started charging back the legal costs it incurred in the proceedings to discontinue the service to redelivery points under the default service.

Gas Balances

During 2017, in February and July respectively, in compliance with Resolution 229/2012/R/gas – TISG, the Group completed the following activities:

- handover to national/regional transporters of data relating to the 2013, 2014 and 2015 adjustment sessions;
- handover to national/regional transporters of data relating to the 2016 adjustment session.

The Group carried out the monthly activities associated with calculating the balance within the deadlines envisaged by applicable laws.

During the second half of 2017, ARERA finalised aspects relating to reform of the settlement process, governing, through Resolutions 670/R/2017/GAS and 782/R/2017/GAS, what was previously introduced under Document DCO 590/2017/R/gas of 03/08/2017 "Final guidelines to streamline gas settlement", regarding the so-called "prior period", represented by the years from 2013 to 2017.

The provisions introduced for this period are intended as valid until issue of a further and subsequent provision.

The reform introduced aims at the structural revision of the regulation on natural gas settlement for guaranteeing the orderly functioning of the market and curbing the so-called "in-out" differences (gas input - gas output off), assuming to recover these differences through the introduction of specific payments, determined at the national average level in line with what has already been regulated in the electricity sector.

This mechanism is implemented through:

- the payment of the balance of "in-out" differences to users with the introduction of a 0.4% allowance;
- the recovery of raw material costs through the introduction of an additional component to the transport tariff, which is equal throughout Italy and amounts to zero up to 30.06.2018.

The assumption of responsibility by distribution companies for control of the network managed through economic mechanisms, the introduction of so-called "dynamic profiling", to take account of the impact of weather on consumption also when readings unavailable, and the roadmap to transfer activities undertaken by the distribution company to the Integrated Information System, are all deferred to a subsequent provision.

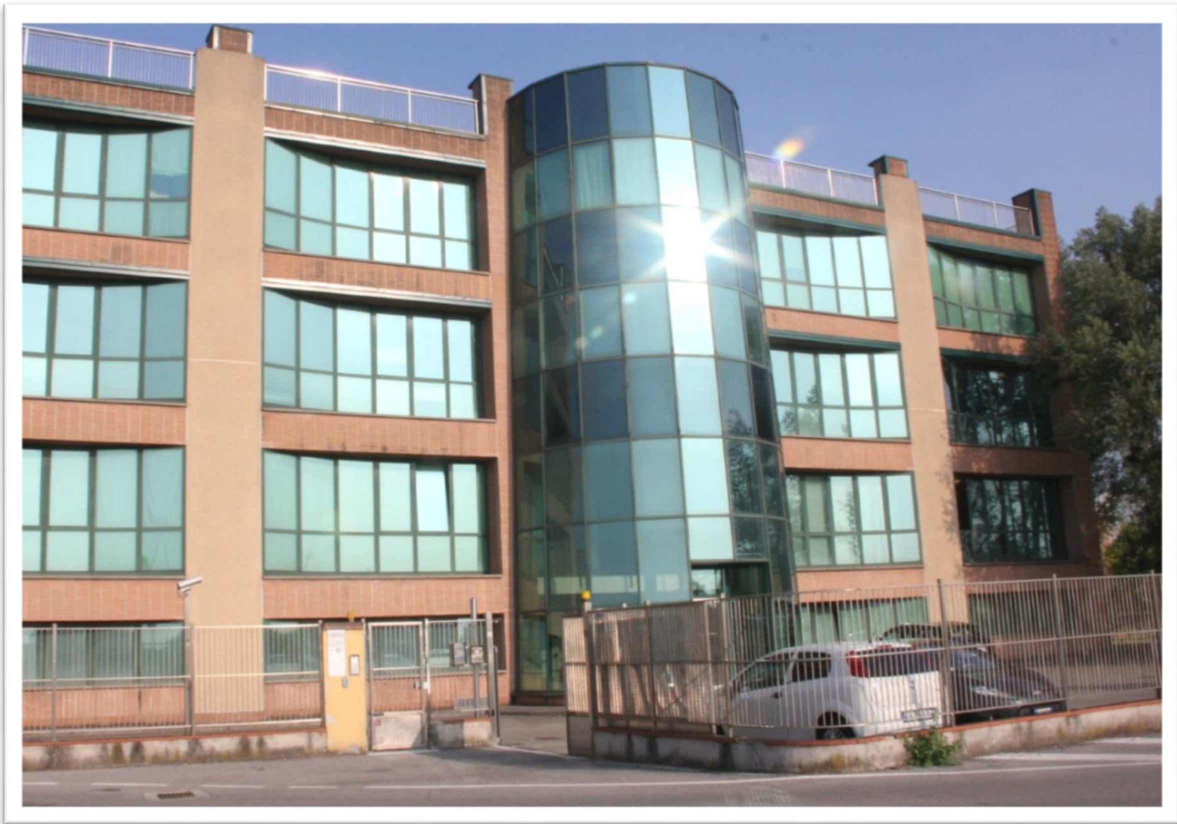
7.4 Metering

The Group successfully completed and has now put in place the measures and internal actions to implement the processes required by the regulatory changes in ARERA Resolution 463/2016/R/com, which became effective on 01.01.2017. Specifically, this provision requires the distribution company to compensate sellers in the event of failure to make the cycle readings available in the agreed time frame.

In addition, the Group has completed all the requirements in Resolution 434/2017/R/gas of 16.06.2017, which governs the management of readings as part of the Integrated IT System with reference to the gas sector.

The trial, started in October 2017, of a streamlined procedure to make readings available to the SII and sales companies as well as make the relevant adjustments was concluded. This will be similar to the current procedure for the submission of readings to sales companies. The so-called "next cloud" phase will start from 01.02.2018.

The coming into force of Resolution 522/2017/R/gas, as from 01.01.2018, envisages the implementation of changes to the provisions of Resolution 574/2013, regarding the collection of readings for accessible meters. The new provisions entail an expansion of the scope of application of compensation, which in the past was only recognised in the case of failure to read accessible meters: in particular, the compensation must be recognised in the absence of an effective reading from accessible meters, replacing the previous concept of "attempted reading".



North West – Cremona Territorial Department

8. Plant construction, environment and safety

8.1 Gas distribution plants

During the year, a total of over 300 km of piping was laid (170 km in 2016), of which around 40% was high to medium pressure and 60% low pressure.
In line with the past years and in keeping with the Company's technological decisions, around 97% of the piping laid in the year was in HDPE (high-density polyethylene) which is a technologically advanced material widely used by the main international gas operators and has lower operating and laying costs compared to traditional coated steel.
This work arises from the improvement needed to maintain levels of service and acquisition of new customers as well as to meet the concession obligations deriving from the agreements with the relevant Entities.
The total length of piping managed by the 2i Rete Gas Group at 31 December 2017 was over 58,600 km, servicing over 1,944 municipalities.
In addition, 1,138 primary substations are included in the amount. Upstream of the distribution networks which the Group manages, they reduce, measure and odorise the gas from the national transport networks. Specifically, the network consists of around 48,000 km steel piping (of which around 28,000 km at low pressure and around 20,000 km at medium pressure), around 11,000 km HDPE pipes (around 6,000 km at low pressure and around 5,000 km at medium pressure), and around 150 km cast iron pipes. On the network there are about 15,000 secondary reduction groups with a capacity of at least 120 sm3/h to reduce pressure between the medium and low pressure networks, direct supply to large customers and intermediate pressure reductions between medium pressure networks.
In addition, as part of the gradual modernisation and efficient running of plants, during 2017, an analysis of information relating to piping under management was carried out, reporting information on age, type of material, and leaks on individual segments of network.

8.2 Network and plant design

Also during 2017, design work focussed mainly on preparing the design for territorial tenders and, to this end, work continued to examine the technical details for the preparation of the technical proposals to be submitted during the tender along with the related design work for some areas of potential interest. For some tenders, work focussed on analysing the related technical documentation after its publication. Flagship projects, if any, were also analysed, which, besides being a mandatory document for the Contracting Authorities in which the main local needs and/or expectations or technical failings are indicated by the Contracting Authority, are an essential element to better direct design choices and are initial technical and economic means of identifying the main work needed.
In addition, in January, the design work to prepare the technical offer for “Milan 1 – City and plant of Milan” was completed. It was started and developed during 2016 and its delivery to

the Contracting Authority took place on 16 January 2017, while, during the year, the design work for participation in the Belluno tender was developed.
Likewise, during the year, the design work to take part in the tender for the service concession in eight municipalities in the province of Avellino with San Nicola in Baronia as the leading Municipality was developed.
In addition, during the year, some design works were developed to extend the gas networks in municipalities which cannot be reached with methane gas but can be served as an extension from municipalities which are already served (for example, in the province of Sondrio, Villa di Tirano and Bianzone from the Municipality of Teglio) or extensions to areas/districts which have no gas service (for example, extension to the tourist area of Bibione in the Municipality of San Michele al Tagliamento, the provision of methane gas in the districts of the Municipality of Grezzana).
In addition, design proposals were developed to connect three potential biomethane producers located in the Municipalities of Calimera, Masate, and Marcallo con Casone, which requested it.

8.3 Service continuity and safety

The 2i Rete Gas Group carried out checks on the data concerning service continuity and safety processes as set out in Resolution 574/2013/R/gas.
The main monitored parameters relate to services showing the distributor’s ability to promptly intervene in potentially dangerous situations (emergency interventions, intervention time), or to organise and carry out preventative checks to ensure correct monitoring of safety conditions (percentage of network subject to inspection, level of gas odorisation, percentage of network with cathodic protection).
By the first months of 2018, the Group will publish the data on the 2017 technical standards. To this end, it retrieved the data the local units entered directly into the IT systems during the year, verifying whether they are correct and consistent as needed.
In general, in keeping with the experience of previous years, we can already confirm the qualitatively high level of the service both in comparison to the minimum service required and in relation to the service provided by competitors.
In terms of constant attention to the safety of plants and end customers, campaigns were undertaken regarding the preventative search for leaks: relating to the planned inspection on the distribution network, equal to over 70% of the high and medium pressure piping and over 60% of the low pressure piping.
As regards checks on the level of odorisation of the gas distributed, which were carried out in the field in order to provide a complete check on the real level of odorisation of such gas, data was recorded (around 17,000 gas chromatography tests) well above the minimum value required by ARERA (around 3,300 tests), a sign of the particular attention paid to service safety.

8.4 Smart meters (Resolution 155/08)

At the end of 2017 around 1,980,000 smart meters were installed, equal to about 51% of the Group's total meters, confirming the annual target set.
As for the concentrator infrastructure aimed at collecting data from smart meters, at the end of 2017, 1,850 were installed overall.
There remains some difficulty in finding sites suitable to house this equipment and delays on the part of local administrations and counterparties in formalising contracts for the use of areas suitable to house the concentrators.
During the year, around 1,400,000 smart meters were commissioned, thus exceeding the target set by ARERA for 2017, equal to 33% of the Company's total meters installed.

8.5 Regulatory oversight

Also during 2017, the 2i Rete Gas Group took active part in regulatory oversight both at national level, in numerous working groups and committees of the UNI-CIG (Italian Gas Committee), and in Europe.

9. Quality, Safety and Environment

9.1 Management of the Integrated Quality, Safety and Environment (QSE) System

Maintenance of 2i Rete Gas S.p.A. Integrated QSE System

2i Rete Gas S.p.A. has an integrated Quality, Safety and Environment (QSE) system certified in compliance with the following standards: UNI EN ISO 9001:2008, UNI EN ISO 14001:2004, BS-OHSAS 18001:2007.
The team of internal auditors coordinated by the QSE (Quality, Safety and Environment) structure ensured control over the correct application of the practices envisaged by the Integrated Management System (IMS) through 67 inspections which involved the business divisions of the Head Office, Departments and Territorial Areas.
During May 2017, the certification body "Certiquality" performed the third-party audit needed to confirm and renew the IMS certification.
The audit concerned the following departments: Centre (Perugia, Massa Area and Chieti Area Offices), South East (Brindisi, Foggia Bari Area and Lecce Brindisi Area Offices), as well as the following Office Organisational Structures: Procurement and Services, Operation, Engineering, Human Resources, Network Commercial Services, IT Systems, and the Quality, Safety and Environment structure, including also the Prevention and Protection Service.

The conclusion confirmed the System is compliant, renewing the Quality and Environment certifications through 14 September 2018 and the Health and Safety certifications through 24 May 2020.
Based on the report of the Certification Body, the management system is compliant with the reference standards; the targets for improvement have been duly set in line with the corporate policy's principles regarding quality, the environment, and safety. Employees are adequately aware of, and involved in, the Company's operations.
The Certification Body reported that the System's performance shows several strengths, such as Management's commitment, the expertise and awareness of the personnel surveyed, the level of detail of the documentation provided, the Procurement Portal, the effectiveness of internal auditing, and the monitoring of outsourcers.
No cases of “Major Non-Compliance” were found, while two aspects led to the recording of cases of Minor Non-Compliance (prior verification of legal compliance for properties being acquired; management of temporary waste deposit areas), for both of them corrective action has already been implemented.
As usual, the report included also some recommendations/opportunities for improvement (totalling 15) that require planning targeted actions. Before the audit scheduled for 2018, the Group will have to provide evidence that these actions have been implemented and are effective.
The Quality and Environment certifications will expire earlier because of the updates to the reference regulatory standards UNI EN ISO 9001 and 14001: this requires aligning the management systems, which are based on the previous versions of the standards.

Transition of the Quality System and Environmental System certifications of 2i Rete Gas S.p.A. to the new 2015 regulatory models.

During the year, the transition process to guarantee the certification of compliance to the new regulatory standard before the expiry of the current certificates started.
In July the contract with Certiquality, which was appointed following a specific tender procedure, was signed and will guarantee the three-year third-party audit to maintain the management system (2018-2020), complete the gap assessment compared to the new regulatory requirements (December 2017), audit the transition of current certificates to the new regulatory models 9001:2015 and 14001:2015, and design the training project needed to raise the qualifications of our Internal Auditors as well.
The policy of the IMS has been realigned, in compliance with the purposes and context of the Organisation, to the new regulatory requirements and, with the occasion, has been harmonised with the principles established in the Code of Ethics and in the Organisational Model.
The progress of the project at 31 December 2017 is already an important achievement, i.e. the proof of compliance of the strategies adopted and the actions undertaken for the transition; this determination arises from the documents on the gap assessment which were produced following the hearings held by Certiquality’s specialists who viewed the

documentation prepared and assessed the work carried out up to mid-December. This result enables implementation of the operational steps which will lead to the presentation of the IMS in its new form during the confirmation and transition audits to be carried out, as scheduled, in the first half of 2018.

Certification of 2i Rete Gas S.r.l.'s Quality System

2i Rete Gas S.r.l. has a Quality Management System compliant with the requirements of UNI EN ISO 9001:2008.
The Certification was issued on 10 March 2016 and, as in the case of 2i Rete Gas S.p.A., is valid through 14 September 2018. The project for transition to the new 9001:2015 scheme follows the design concepts of the Parent Company and the transition to the new regulatory model will take place at the same time as the routine check planned for 2018.
In March 2017, the Certification Body performed the first regular routine check, which confirmed the validity of the system without finding any problems.

9.2 Prevention and Protection Service

Between January and February, the annual meetings required by art. 35 of Italian Legislative Decree 81/08 were held. All Business Units discussed safety-related issues based on the events of 2017. The following issues were discussed at the meetings: the trend in injuries and work-related illnesses; review of the Risk Assessment Document; verification of the suitability and effectiveness of protective equipment; assessment of training programmes; analysis of workplace health monitoring.
By the end of February, to the Company updated the Risk Assessment Document for those Business Units where the new territorial reorganisations have been implemented. In two Business Units it was appointed a new company doctor. In all the production units, the main contents of the risk assessment and analysis were unchanged, and therefore the Workers' Safety Representatives approved them.

9.2.1 Workplace injuries

As for injuries suffered by operational staff, the trend in 2017 saw an increase compared to the previous year.
In 2016, there were 13 "non-serious" injuries (i.e. with an initial recovery time of less than 30 days) among operational staff while, in 2017, there were 16 injuries. There was just one injury at the end of the year among clerical staff, compared to 3 in 2016.
Besides the above injuries, in 2017, there were also 1 and 6 commuting accidents involving operational staff and clerical staff, respectively; in 2016, there were 10 commuting accidents among clerical staff and 1 among operational staff.

In conclusion, the overall trend in injuries in 2017 was down on the previous year owing to the lower number of commuting accidents, recording 24 injuries compared to 27 in 2016.
In order to achieve "zero injuries", the QSA structure, in collaboration with the Head of the Prevention and Protection Service, continues auditing workplace safety at the territorial facilities as well as the work sites managed by contractors.

In 2017, workplace health monitoring ensured the implementation of the planned programme according to the findings of the risk assessment and based on the healthcare protocol approved by employers and by company doctors. Workplace health monitoring involved 547 Middle Managers/Clerks and 692 Manual Workers.

9.2.2 Environmental issues

The QSA structure constantly monitors material environmental aspects and ensures the Company is aligned with changes in environmental regulations.
The QSA structure issued the update of most corporate documents; such activity is still in progress.
The Company updated its Environmental Analysis – the key document for assessing its environmental impacts – and a further review is planned during 2018 in order to update it to the requirements envisaged in the new regulatory standard UNI EN 14001/2015.
All the areas are compliant as regards the verification of the presence of asbestos, carried out also through regular onsite monitoring. The approved programme for removing asbestos from buildings is ongoing: 45 interventions were carried out in the year and the remainder have already been planned for 2018; to these may be added 22 new interventions which are necessary following the analyses and checks carried out during the year.
Particular attention is placed on managing the acoustic impact of pressure regulating and metering (REMI) stations and pressure-reduction units (GRF), exclusively from a prevention viewpoint, since no cases were found in which acoustic zoning limits were exceeded.
In the REMI stations, the Company continues monitoring updates on the presence of MMVFs (man-made vitreous fibres). After a survey of the Company's operations and facilities across Italy, MMVFs were mapped where there was uncertainty about their possible risk level and were subject to a removal plan which follows the operational priorities of intervention but is dependent on the confirmation of their risk profile. All MMVFs are quarantined, therefore there is no risk of airborne fibres at the Company's facilities (i.e. the REMI stations).
Regarding emissions into the atmosphere, the Group prepared the F-Gas certification pursuant to Italian Presidential Decree No. 43/12 concerning the emissions of fluorinated greenhouse gases for the A/C systems of the buildings that fall under said regulation. Concerning the pre-heating sections of the REMI stations, performance audits continue to be conducted, even though these were not required by the applicable regulations. 100% of the boilers will be audited by the end of the year.
The Group is registered in the SISTRI System for the purposes of managing its own hazardous special waste. The Group handles the non-hazardous and hazardous special waste it

generates using state-of-the-art processes, tracking it by keeping waste acceptance and deposit records as well as digitally using a specific application.

9.3 Technical and Commercial Quality, communication of commercial quality data to ARERA

In accordance with the rules and deadlines established by ARERA with Resolution 574/13, which defines the general requirements and standards for the commercial quality of gas distribution services in the 2014-2019 period, in March 2017, the Company submitted the data on the services rendered in 2016 by 2i Rete Gas S.p.A., 2i Rete Gas S.r.l., and Genia Distribuzione.

The information submitted to ARERA is aggregated on a regional basis and concerns:

- the number of end customers served at 31 December 2016;
- the number of services required to comply with specific levels of quality. The Company distinguishes between the services that were performed within standard time frames and those that were not, with or without compensating customers for delays caused by the Company;
- the number of services required to comply with general levels of quality.

Overall, as in previous years, the report showed that the quality of the services is aligned with the minimum requirements established in said resolution.

The QSE structure ensured inspections on a test basis to check the correctness and provability of the data recorded and disclosed to the Authority, with reference to the commercial quality of the services provided during 2017 at the distribution plants located in the 7 provinces with the most redelivery points served. The results were recorded and made available to the business units concerned. The situation was generally in line with the requirements established by corporate procedures.

During 2017 similar inspections on a test basis were guaranteed also on plants selected by the QSE.

The check aimed to verify the quality of the documents certifying the service safety and continuity (management of the emergency service, management of leaks, management of checks on the level of odorisation of the gas distributed, management of the cathodic protection system) which were guaranteed during 2016.

The overall assessment, referring to the selected sample, allows to issue a low-risk or no-risk opinion on the operations carried out. The proposed corrective or preventative actions, once implemented by the structures concerned, allow to further improve the confidence on compliance of the audited data where necessary.

10. Water sector

During the first part of 2017, the Company continued with the work in the water sector in the nine concessions which were active at the start of the year.
As from 03.05.2017, the management of water services relating to the concessions of Robbio, Castelnovetto, Palestro and Confienza was sold to Pavia Acque S.c.a.r.l., the single operator of ATO of Pavia assigned to the integrated water service.
In addition, on 29.12.2017, 2i Rete Gas S.p.A. signed an agreement with Brianzacque S.r.l. for the transfer of the business unit relating to the drinking water distribution service in the Municipality of Villasanta, arranging for the effective transfer of management as from 03.01.2018.
Therefore, the residual water management activity after the end of 2017 includes the plants of Cerate Urio, Riva Ligure, Santo Stefano al Mare and Moscufo.

11. Human resources

11.1 Company organization

In 2017, the Group made efforts to acquire new companies in the sector, implement innovative projects to develop human resources, as well as gradually the extend performance appraisal process. In addition, improvements to internal communication were made by publishing and disseminating the corporate Values and organising initiatives to consolidate the Group spirit and loyalty.
From an administrative viewpoint, finally, the Group made a commitment to streamline the relevant reporting process, continuously implement more advanced and effective IT systems, as well as overhaul and maximise operations with the consequent streamlining of some territorial facilities.

As for internal communication, an increasingly strategic asset for the purposes of promoting and disseminating company culture within the organisation, a highlight was the publication of 2i Rete Gas's Charter of Values - the result of several meetings in and out of the office with employees, who provided ideas, insights and suggestions to define the Charter - as well as the launch of the “Noi2i facciamo rete” brand, to be used for all relevant initiatives aimed at strengthening the Company's identity and teamwork. Further team building initiatives were implemented and saw a high level of participation and involvement by all staff.

As for the objective of surveying, consolidating and developing employee management skills, the Group consolidated the Performance Appraisal System and process – considered to be a way to develop employees’ potential as well as analyse and assess performance – which concerned all employees at the Head Office and departmental structures (already assessed in 2015) and most employees in Italy, with the aim of gradually extending the system to a larger proportion of resources in the operational Areas.

Finally, in April, the Group launched a project to interactively manage manual workers by setting up data interfaces between the “Geocall Workflow Management” portal for activity planning and SAP HR Time for attendance management. The launch and evolution of the SAP HR system led to an overhaul of data extraction processes, thus allowing to improve human resources reporting.

11.2 Relations with trade unions

2017 saw the renewal of the Italian national collective bargaining agreement for the Gas and Water sector, which had expired in January 2016. The Group participated in the negotiations on the new agreement. The renewal brings wage increases in line with estimated inflation for the relevant three-year period.
The essential point in the new collective bargaining agreement, just for companies in the Gas sector, is the implementation of the agreement made at the Italian Ministry of Economic Development regarding application of the labour law to staff involved in ATEM tenders.

In addition, the Group also signed the company-level agreements concerning the 2016/2017/2018 performance bonuses, which are contingent on meeting specific technical indicators as well as the possibility of welfare conversion.
The foundations were laid to define a new protocol on workplace relations.
Finally, the year saw numerous meetings with trade unions aimed at managing the practical aspects following local organisational changes.

11.3 Selection

In 2017, the Group launched the Job Posting project, making all jobs offers across business units visible to all employees. This new search channel is intended to promote internal resources, consolidating their expertise and developing their potential while improving the contribution they can make to the Company.
In this regard, 23 positions were opened, with a total of 44 candidacies received and 14 positions filled.

Concerning the recruitment and selection process, the Group hired 22 new employees, with various types of contracts (permanent, fixed term, contract work, internship). Specifically, the focus was on Network Commercial Services, Regulatory Affairs, Electronic Metering, and ICT, with new recruits also in Engineering, Human Resources, and Procurement and Services in the North Department.

The breakdown of staff at 31 December 2017 is provided below:

	Executives	Middle Managers	Office Employees	Manual Workers	Total
Personnel at 31 December 2016	**30**	**112**	**1,140**	**701**	**1,983**
Increase	-	2	15	-	17
Decrease	(4)	(7)	(40)	(20)	(71)
Change in category	4	(3)	(2)	1	-
Personnel at 31 December 2017	**30**	**104**	**1,113**	**682**	**1,929**

Average number of employees of the 2i Rete Gas Group

	2017	2016
Executives	30	31
Middle Managers	106	111
Office Employees	1,110	1,119
Manual Workers	692	701
Total	**1,937**	**1,962**

11.4 Training and development

On the training front, efforts were focussed both on management and on specialist and technical themes, including safety.

As for management, as a conclusion of the program started in 2015 for staff who stood out in terms of commitment and results, in the first few months of the year, in-depth courses were held on several topics: relational teamworking, result orientation, self empowerment, leadership and assertiveness and project management; a course was held on the “Management of cross-sector complexities”, dedicated to departmental positions who report to the Head Office and must interact with multiple functions, as well as an “Employee management” course to help branch staff manage their team; finally, some coaching programmes for key staff were started.

As for technical-operational training, courses for technical and operational staff continued and focussed, on the one hand, on the role of Operational Control Staff and, on the other, on the WorkForce Management system.
In addition, in partnership with the QSE structure, the Group organised and provided the following Workplace Safety training initiatives: First aid courses (basic and refresher training)

for nearly 350 employees across the country; individual courses for the new Safety Coordinators during project Execution, also including basic (120 hours) or refreshner (40 hours) training; fire prevention courses for around 370 employees across the country; the annual refreshner training for Workers' Safety Representatives.

As regards specialist themes, the training project to promote a deeper understanding of specific local corporate processes and structures continued.
All employees also received training and information on potential conflicts of interest they may encounter in the discharge of their duties, with meetings held at all the Group's Offices and involving Heads of Divisions and Business Units, Heads of Departments, and Area Heads as in-house trainers, so as it was for the training pursuant to Italian Legislative Decree No. 38 on the fight against corruption.

In addition, in December, the implementation of the Success Factors platform was finalised also in relation to training. Thanks to this, it was possible to load an e-learning course on general safety training and the specific risks for clerical staff.
The platform will be the basis for managing all corporate training as from 2018.

12. IT systems

The work on IT systems during 2017 aimed at ensuring that the ARERA targets concerning remote reading and management are met, supporting the streamlining of operational processes, to define the application to support the project for better management of the company asset-related databases and implementing the measures needed to improve resilience to risks from Cybercrime.
An important contribution was provided by the implementation and commissioning of a Big Data & Advanced Analytics platform on which monitoring of business processes took place, with a particular focus on mass-market smart meters, and which is the basis for the Process Control Room functions activated for the various business processes.

As regards smart meters, the integrated remote management process was started with the remote switch-off of the valve: besides the integrated functions for the management of suspension and reactivation requests that are loaded by sales companies on the portal, monitoring functions for switched-off meters were implemented, as well as the safe management of the switch-off process and the switch-on using a tablet with operational staff on the field. In parallel, using the Advanced Analytics functions, the maintenance process for meters which experience communication issues with the Central Acquisition System was integrated, enabling targeted and effective fieldwork, with evidence of the trends and alarms caused by connection problems on the field (both GPRS and 169 MHz). Finally, the tools supporting the approval of new equipment and the test laboratory in Cremona were commissioned.

During 2017, the plan to implement the Work Force Management (WFM) project continued, with a gradual local release in all Areas of the new functions to support user management processes (operations on meters and connections), to manage the plan to replace conventional meters with smart meters, to manage emergency interventions and site visits for smart meters. The WFM solution has also been extended to technical staff engaged in worksite checks and the appointed Safety Coordinator during project Execution, enabling the recording on the field of the outcome of checks and its integration with the vendor rating system through a specific application.
Again, under the scope of the WFM, integration with subcontractors that use the same platform continued in order to share work plans and billing statements. Their operational staff will use a tablet with the same application as the Group’s operational staff to manage fieldwork.
Further streamlining initiatives concerned the review of the technical quoting process for user requests and the implementation of the Customer Area on the portal in order to allow optimised management of the activation process under Resolution 40.
The projects which were started in the second half of 2016 were completed, in particular, the Group activated the WebEDI electronic invoicing process on the new procurement platform, extending this functionality to all qualified suppliers and completed the automation of the integrated default management process.

As regards Asset Management, in the second half of the year, the Group launched a feasibility study of the asset management review programme to optimise and complete the support processes and applications (management of third-party assets, management of contributions and loans, billing of works, analysis of asset book). The general working document and the detailed documents for the individual design projects issued in December 2017 will guide, during 2018, the interventions carried out on the applications of the IT system in order to allow easier and optimal management of the network improvement plan.

As regards the fight against CyberCrime, in 2017, the Group completed significant actions as part of the Cybersecurity programme launched in 2016 to improve resilience to email and internet attacks. Besides the measures to block email attack attempts (integrating the Symantec solution), the Group also started monitoring all mobile equipment (Smartphones, Tablets) using a Mobile Device Management (MDM) and Antivirus platform to minimise the risk arising from the use of these devices connected to the corporate IT system. Solutions to analyse the configurations of infrastructure equipment were also implemented, the Firewalling and Proxy Management platform was revamped and the “Safe printing” and “Follow me” solution was implemented on printers. During 2017, the Security Operation Centre was also launched which, in overseeing infrastructure, operates with the support of the SIEM solution implemented during the first half of the year. Finally, the Disaster Recovery infrastructure was updated to support the growth in volumes managed with new applications and, in the future, to support growth from acquisitions.

13. Research and development

No research and development took place during the period.

Chieti Office

14. Risk management

This section concerning Enterprise Risk Management describes the main operational risks that characterise the sector in which the 2i Rete Gas Group operates. Regarding liquidity, credit and market risks, reference should be made to the relevant section in the notes to the separate and consolidated financial statements.

14.1 Operational risks

Operating natural gas distribution networks involves the risks of malfunction or unanticipated interruption of the service, due to factors that are not under the Group's control, such as accidents, breakdowns or malfunctions of equipment or control systems, underperformance of the plants, and extraordinary events such as explosions, fires, earthquakes, landslides, and other natural disasters. These events can result in an interruption of the service, significant damage to people or property as well as the environment, and/or economic and social turmoil.

Any service interruptions, underperformance, or inadequacy of the Group structures and/or the consequent obligations to provide compensation could result in a reduction in revenue, an increase in costs, and/or regulatory actions.

To prevent these risks, and specifically the risk of natural events damaging the networks, the Group has entered into specific insurance policies that are considered adequate for the types and amount of damage that could be incurred or caused.

14.2 Risks linked to the development of the legal and regulatory context

The Group may be exposed to risks related to changes in the tariffs for regulated natural gas distribution activities. For example, a change in the regulatory variables or in the method used for regulation – including, but not limited to, in how the contributions received to develop the network and infrastructure are included in the tariff in each regulated period – will impact the tariffs applicable to the Group's business, with negative repercussions on revenue and margin.

The regulatory period has a six-year duration, and the WACC (weighted average cost of capital) is reviewed every three years.

14.3 Risks deriving from future changes in natural gas consumption

Though the regulated income of the Group's operating companies does not directly depend on the distribution volumes, in regard to which the Group has not incurred any risks insofar as the volumes of the demand, a prolonged economic crisis or other external event that may lead to reduced gas consumption levels could give rise to an increase in interventions by the government and changes to the legislative framework, which could impact negatively on the Group.

14.4 Environmental and safety risks

Operating and maintaining gas distribution networks is potentially dangerous and could cause damage to third parties and/or Group employees. The Group is subject to Italian and European Union laws and regulations that govern health and safety to protect the public and employees.
As part of its operations, the Group uses potentially hazardous products and sub-products, and the work sites in which it operates are subject to laws and regulations (including zoning laws) regarding pollution, environmental protection, and the use and disposal of hazardous substances and waste.
These laws and regulations expose the Group to costs and liabilities associated with its operations and plants, including in relation to waste disposal.
The costs for any future environmental restoration obligations involve uncertainty as to the extent of the contamination, the appropriate corrective actions, and the Group's responsibility – which are often hard to estimate.
To mitigate this risk, the Group has taken out specific insurance policies covering both the cost of containing a potential contamination as well as of the relevant restoration and damage caused.

15. Main features of the risk management and internal control systems in relation to financial disclosure

This section of the Directors' Report describes the main features of the Group's corporate governance, thus discharging the specific disclosure obligations envisaged pursuant to art. 123 bis of Italian Legislative Decree No. 58/1998 – Consolidated Law on Finance (known as TUF, *Testo Unico della Finanza*) (Report on corporate governance and shareholding structure) regarding the information required by paragraph 2, letter b).

15.1 Foreword

The Internal Control System adopted, in its broadest sense, is defined as a process undertaken by the Board of Directors (hereafter the "B.o.D."), by Executives and by other people in the corporate structure, the purpose of which is to provide a reasonable guarantee concerning the achievement of all the corporate objectives, whether strategic, operational or in terms of legislative/regulatory compliance.
Specifically, the Internal Control System aims to ensure that the Company:
- respects the laws, regulations and internal procedures;
- safeguards the Company's assets;
- makes the accounting and operational information reliable;
- applies criteria of efficiency and effectiveness in the operations it undertakes.

The Internal Control System in relation to the financial disclosure process aims to identify and assess the actions or events whose occurrence or non-occurrence may jeopardise, in full or in part, the achievement of the objectives of trustworthiness, accuracy, reliability and timeliness of the above-mentioned disclosure.

In general reference to the whole Internal Control System and, in particular, to the Parent Company's financial disclosure, the B.o.D. defines:
- the guidelines so that the Company adopts an Internal Control System which refers directly to the models envisaged by relevant international best practice (i.e. the "Co.SO Report");
- the initiatives necessary so that the strategic, operational and legislative compliance risks of the Company and of the Group are adequately measured, monitored, managed and assessed through a suitable and structured risk analysis method;
- the methods and contents with which the adequacy, effectiveness and actual operation of the Internal Control System is periodically tested based on the approval of the Audit Plan and verification of the audit work undertaken by the Audit Bodies.

15.2 Bodies supporting the B.o.D. which operate with a view to financial disclosure

In order to be able to effectively implement the items indicated above, the B.o.D. interacts with various institutional control bodies, such as the Board of Statutory Auditors, the Supervisory Body pursuant to Italian Legislative Decree No. 231/2001 (hereafter the "S.B.") and the Independent Auditors, with the support of the CFO and of Internal Audit, ensuring that the latter have the powers and resources needed to undertake their respective functions and activities.

Board of Statutory Auditors

The Board of Statutory Auditors carries out the supervisory and control functions envisaged by the Italian Civil Code. Given that the Parent Company is a "Public interest body", on the basis of art. 19 of Italian Legislative Decree No. 39/2010, the Board of Statutory Auditors also acts as the "internal control and audit committee", with supervisory responsibilities over:
a) the financial disclosure process;
b) effectiveness of the internal control, audit (if applicable) and risk management systems;
c) audit of the annual accounts and consolidated accounts;
d) independence of the statutory auditor or of the independent auditors, in particular as regards the provision of non-audit services to the body whose accounts must be audited.

Supervisory Body and Organisational Model under Italian Legislative Decree No. 231/2001

The Organisational Model is organised in the following terms:

i. the General Part, which describes, after a short legal introduction to the contents of Italian Legislative Decree No. 231/2001 and the so-called predicate crimes to administrative liability, the aims of the Model, its structure, recipients, the changes and additions adopted, the Company's institutional and organisational arrangements (including a detailed description of the company structure and identification also of the services provided by third-party companies), the Code of Ethics, the powers and functions of the Supervisory Body, included in the regulation of the body itself, the information flows to it, the processes for training and informing staff, as well as the disciplinary system;

ii. the Special Parts, which are divided depending on the categories of predicate crime considered herein. Specifically, the breakdown of each Special Part is as follows: description of the aims of the Special Part, identification of the types of relevant crime, list of the potentially sensitive processes connected to the specific types of crime, general principles of conduct and implementation, specific procedural principles, powers of the Supervisory Body and flows from the heads/contact persons to the Body itself. With particular reference to the "information flows" to the Supervisory Body, which the latter needs to effectively undertake its control and consultancy work, also guaranteeing the complete traceability of the analyses undertaken on the key aspects, the aforementioned Model defines:

- the contents of the information flows to be provided by the Organisational Model heads/contact persons to the Supervisory Body;
- the envisaged reporting by the managers/contact persons, three times a year.

On 29 April 2015, the B.o.D. appointed the new Supervisory Body as the collective body responsible for overseeing the operation and compliance with the Organisation, Management and Control Model adopted, as well as its update, consisting respectively of:

- Attorney Daniela Mainini, Chairwoman of the S.B.;
- Marco Antonio Modesto Dell'Acqua and
- Attorney Maria Cristina Fortunati, Head of the Legal and Corporate Affairs Department, under the General Affairs Directorate of the Company.

The Supervisory Body is called on to exercise the following activities or functions:

- supervision of the operation and compliance with the Organisational Model adopted;
- verification of the real suitability and adequacy of the Organisational Model adopted, in other words its real ability to prevent the commission of predicate crimes to a potential administrative liability of the Company, pursuant to Italian Legislative Decree No. 231/2001;
- monitoring the effective implementation of the Organisational Model, pursuant to art. 7, paragraph 4, letter a) of Italian Legislative Decree No. 231/2001, understood as the continuing correspondence of this document to the institutional and corporate organisational arrangements, as well as to the core business of the Company;
- consultancy aimed at updating, integrating or changing the Organisational Model and the Code of Ethics adopted, on the basis of regulatory changes or new corporate needs;
- collection, examination and maintenance of all the information flows received or sent. In this regard, the Supervisory Body examines the reports sent every four months by the heads/contact persons pursuant to the Model, including the central Administration, Finance and Control Department.

Independent Auditors

The Shareholders' Meeting of 2i Rete Gas S.p.A., on 29 April 2015, appointed PricewaterhouseCoopers S.p.A. as its Independent Auditors for the years 2015-2023.
As provided for by art. 11 of Regulation (EU) no. 537/2014, the Independent Auditors will submit to the Board of Statutory Auditors, in its role as the "committee for internal control and audit", a report on fundamental issues arisen during the audit and, in particular, on the significant failings found in the Internal Control System with reference to the financial disclosure process.

Internal Audit

The B.o.D. outsourced to COGITEK S.r.l. the Internal Audit and Risk Analysis work as of 1 January 2015, under the coordination of Pierantonio Piana, who acts as the Head of Internal Audit.

The Head of Internal Audit reports to the B.o.D. and, through it, to the Chief Executive Officer or the General Manager (hereafter "Senior Management"), and is therefore independent from the heads of the operational areas, including Administration and Finance. He also has direct access to all the information needed to perform his role, as indicated in the "Mandate". In 2016, the Group started insourcing the Internal Audit department by hiring two professionals that operate under the supervision of Pierantonio Piana.
The 2017 – 2019 audit plan was prepared o a rolling annual basis following a structured and comprehensive risk analysis. This analysis, which is updated every year in order to identify the most important areas to audit, enables the IA department to define the most appropriate areas and level of analysis to carry out "third line of defence" controls (process audit, compliance audit), as well as to optimise the use of the dedicated resources.
The results of the risk analysis and the audit, as they are gradually carried out, are systematically illustrated to Senior Management, with a periodic summary for the B.o.D., so that, should there be any weaknesses or potential weakness in the Internal Control System, they can be put right with suitable preventative/corrective measures required by IA, which are duly assigned, scheduled and monitored until their full completion. As from 2017, following this monitoring – the main aim of which is confirming the complete implementation of the aforementioned measures – systematic and related follow-up started in order to confirm whether the aforementioned plan effectively introduced the improvements to the internal control systems as hoped for during the audit.

The CFO and the Administration, Finance and Control Department

The System for risk management and internal control over financial disclosure is governed by the Chief Financial Officer (CFO), who is responsible for designing, implementing and approving the Accounting and Administrative Control Model, as well as assessing its application.

In carrying out his/her activities, the CFO:

- interacts with the Independent Auditors and with Internal Audit;
- is supported by the Department Heads involved who, in relation to their own area of responsibility, ensure the completeness and reliability of the information flows to the CFO for the purposes of preparing the financial disclosure;
- coordinates the activities undertaken by the Administrative Heads of relevant subsidiaries, who are responsible for the implementation, within their own company, together with the delegated bodies, of an adequate accounting control system to oversee administrative and accounting processes and assess their effectiveness over

time, submitting the results to the Parent Company through an internal certification process.

Other corporate departments involved

The various corporate departments (and the organisational areas) – involved in the various core and support processes – are called on to follow the rules of correctness and transparency, accountability and traceability which are part of the procedural framework relating to every activity undertaken. The aforementioned departments also arrange to carry out the so-called “first” and “second” level controls on the process which precedes the final accounting figures, in order to guarantee the “soundness” and reliability of the latter.

15.3 Description of the main features of the risk management and internal control system in relation to the process of financial disclosure

Given that the Parent Company, in setting up its own Internal Control System, has adhered to the indications on the matter included in the relevant laws and regulations, including the Italian Civil Code, Italian Legislative Decree No. 58 of 24 February 1998 (Consolidated Law on Finance), specifically arts. 123 bis, paragraph 2 letter B, 184 and 185, the Market Abuse (Directive 2003/6/EC) Regulations 2005 and the Transparency (Directive 2004/109/EC) Regulations 2007 issued by the Central Bank of Ireland, Italian Legislative Decree No. 231/2001 (Organisational and Management Model under Italian Legislative Decree No. 231/2001), Italian Legislative Decree No. 39/2010, as well as the applicable IAS/IFRS, the related description of the aforementioned system is hereafter set out following the sections of the Co.SO Report framework.

Control environment

The control environment consists of the collection of corporate values which represent the organisational and behavioural prerequisites needed for a transparent and virtuous management style, which leads to sound and correct management of the Company: it refers, in particular, to the ethical values expressed by the Company, to the organisational structure, to the system of proxies and delegated powers, to the operational and regulatory framework, etc.

In order to consolidate these favourable corporate governance conditions, the Company has therefore continued in its updating/drafting of guidelines, corporate procedures, as well as the essential operational and IT control processes, which are a precise decision-making and behavioural guide for Top Management and all employees.

In particular, the aforementioned documentation has been made available on the Company intranet, so that everyone working in the Company can access it and check the elements that may help support their work and make it compatible with Company values and the rules of “good governance”.

Likewise, third parties (and in particular suppliers, who have undergone an increasingly intensive form of “pre-approval” to ensure they do not engage in non-transparent or incorrect conduct, including by calculating ethical ratings) are required to comply with the ethical principles in the aforementioned documents, agreeing to specific clauses in the contracts they enter into with the Group and sharing them.

These external subjects, in order to respect the ethical principles and the Company values mentioned above, have the chance to access online the indications on conduct that the Company has made available to them (e.g. the aforementioned Organisational and Management Model pursuant to Italian Legislative Decree No. 231/2001 – General part).

Risk assessment

This is the activity promoted, developed and managed by Internal Audit, on the indication of the B.o.D. (2017-2019 Audit Plan) which aims to identify, evaluate and manage strategic, operational, financial and legislative/regulatory compliance risks that the Company may encounter. This activity also includes critical assessment of the system of “company defences” against the aforementioned risks.

In fact, the primary objective of Risk Analysis – which is undertaken making precise and timely reference to the most common international best practices, such as ERM-Enterprise Risk Management and CRSA-Control Risk Self-Assessment – is to make the Company aware, in a structured and complete way, of the aforementioned potential threats and the related weaknesses of the existing defences, as well as deploying, with a rigorous approach to priority interventions and with precise responsibilities and timeframes, the most suitable preventative/corrective action plans aimed at remedying the potential weaknesses that have been identified.

As noted, the Risk Analysis process is carried out each year by the Company (Risk Analysis sessions were started in 2014 and annually updated in 2015 and 2016); also in 2017, there was an update of the risks, deriving both from organisational, regulatory and legislative and/or business changes which have characterised this year and from other or further risk conditions which emerged in the period.

As for the assessment – subject to updating the mapping of all Company processes where necessary – the Group decided to have the various company heads (Top Management and process owners) self-assess risks, while the assessment of the controls adopted to combat such risks has been carried out by the Internal Audit Department (on the basis of the information gathered and the experiences gradually “accrued” from the audit work undertaken up to that moment).

The risks have been assessed in terms of “severity and probability”, while the controls have been examined on the basis of their “adequacy and activation”: all the assessments made by the various subjects responsible have been supported by specific measurements arranged for the purpose.

The assessments, updated in 2016, of the aforementioned risks and related controls have given rise to “plotting” them on their respective diagrams represented by the “theoretical risk profile” (risk appetite) and by the “control profile”. These profiles – in agreement with Top Management – have been divided into acceptable and unacceptable areas (“risk tolerance and control weaknesses”).
As already happened in the Risk Analysis of previous years, the 2017 update took as a reference very broad unacceptable areas (especially for legislative and regulatory compliance risks) in order to reach a particularly cautious risk assessment for the business.

The comparison between potential risks and related controls highlights the so-called “residual risks”, in other words the unacceptable risks which have not been adequately managed by the controls and which may have an impact of any degree on various corporate objectives.

The results of the 2017risk analysis, besides triggering a remediation plan process with prioritised interventions, enable the identification and scheduling of audit activities over the next three years (2018-2020 Audit Plan, endorsed by the Chief Executive Officer and to be approved by the B.o.D.).

Also in 2017, the method was applied across the head office departments and local areas and enabled - as usual - a broad analysis of potential risks and the related controls under way, of which only a small percentage resulted not to be adequately managed and therefore subject to preventative/corrective plans, which moreover had already been completed or had made significant progress.

Control activity

These are control activities carried out by the operational and local departments (first-level controls), the Quality, Safety and Environment Department, the Administration Department, Management Control, etc. (second-level controls) and Internal Audit (third-level controls, in agreement with the Board of Statutory Auditors, the Supervisory Body under Italian Legislative Decree No. 231/01, the external auditor).

The information principles underpinning the aforementioned controls, which are carried out, as noted, thanks to the increasingly broad and structured presence of adequately formalised and organised rules, concern the separation of duties and roles, the authorisation system for all accounting and managerial operations, their traceability with suitable documentation and registration, the detailing of choices, physical control over tangible and intangible assets, as well as accounting entries and operational recordings.

The corporate support tools enabling the effective control work set out above are:

- Managerial Procedures, Operational Procedures, Operational Instructions and Technical Specifications;
- the Quality manual;
- the Accounting and Administrative Control System, through IT procedures on SAP;
- the Group Accounting Manual and chart of accounts – a document which aims to promote the development and implementation of standard accounting criteria within the Group as regards the recognition, classification and measurement of operations;
- the Operational instructions for financial statements and reporting and year-end timetables – documents which aim to inform the various departments of the detailed operating methods to manage the preparation of the financial statements within the established and agreed deadlines;
- the Administrative and Accounting Procedures – documents which establish the responsibilities and control rules to follow with particular reference to administrative and accounting processes;
- the three-year Audit Plan and the audit manuals;
- the continuous audit, managed by the IA department, in order to improve the internal control system to prevent and/or identify any cases of non-compliance with the law and/or internal regulations, which can be assessed in all the main corporate processes (accounts receivable, accounts payable, finance and cash management, human resources). This approach – defined on the basis of 54 red flags – can periodically "analyse" the whole company database in order to systematically record "all possible situations requiring closer analysis and scrutiny".

The above description of the tools and procedures is subject to continuous improvement following control activities undertaken by each control body during their own institutional work.

Specifically, as for the various three-year Plans (2014/2016, 2015/2017, 2016/2018, 2017/2019 and 2018/2020), the audit was conducted as follows:

- 2014, start of Cogitek S.r.l. business: targeted audits on local corporate processes which, on the basis of the risk analysis, represented the greatest audit risk/weakness, with a consequent request for implementation, updating and gradual completion of the corporate operational and regulatory framework.
- Years from 2015 to 2017: after completing the gradual normalisation of the Internal Control System, the Group performed behavioural audits on operators to ensure compliance with the rules (strategies, policies, procedures, requirements as per Italian Legislative Decree No. 231/01, in partnership with and/or on behalf of the S.B., regulatory aspects), also through the more and more massive use of «continuous auditing/anti-fraud». Gradual closing to total "coverage audit", in other words the

completion of audits of local and Head Office corporate processes, in order to assess at least once during the entire period, the operation of the controls embedded in these processes. Monitoring of the timely implementation of the preventative/corrective plans requested during the audit and assigned to the various competent corporate departments.

- 2018-2020 Plans: Completion of “coverage audit”. The Group followed up on especially significant issues for its business to ascertain that the preventative/corrective plans put in place by the above-mentioned Departments meet the necessary operational requirements and actually deliver the results expected for the improvement of the Internal Control System. Complete introduction of «Continuous auditing/anti-fraud» and launch of Continuous Monitoring.

Information and communication

This refers, in particular, to the strategic and tactical information which must flow down from Senior Management throughout the corporate structure, so that all the parties involved in operations have adequate knowledge of the elements that are essential for managing their area of responsibility. In the Group, this disclosure takes place in accordance with the planning, budgeting and periodic reporting process (e.g. Tableau de Bord) and extends through the main levels of the organisation.

Monitoring

It relates to the activities aimed at constantly checking over time the quality of the Internal Control System. This approach is applied periodically by Internal Audit, which is called on to provide the B.o.D. – at least annually – with an assessment on the alignment of the Company’s Internal Control System with the aforementioned expectations.

In parallel, on conclusion of the risk analysis and each annual Audit Plan, Internal Audit verifies the quality level of the Internal Control System, also in light of the complete implementation of the preventative/corrective measures assigned to the various process owners.

16. Outlook

In 2018, the Group will continue improving operational efficiency and curbing costs. The forecast profit for 2018 shall reflect regulatory measures, market trends, the economies of scale and cost efficiency, which can be achieved given the size of the customer base. The acquisition of the business scope consisting of the three companies Nedgia S.p.A., Gas Natural Servizi S.r.l. and Cilento reti S.r.l. will be recognised in the 2018 financial statements, both in terms of revenue and of higher costs arising from the increase in the scope of consolidation and the streamlining projects.

In particular, the actions undertaken by the 2i Rete Gas Group seek to:

- create significant synergies at local level, including with the companies acquired on 1 February 2018, in order to optimise its presence and act more and more effectively;
- concentrate resources on the highest value-added network operations through increasingly focused and specialised operational structures;
- pursue and improve the use of IT tools, especially in customer relations, in order to boost efficiency;
- continue reducing the number of workplace injuries by improving work quality and safety across its operations;
- enhance the gas distribution infrastructure in order to offer to the greatest number of prospects the possibility of connecting to the network and using methane, the fossil fuel with the lowest environmental impact and with great flexibility also thanks to its scalable use, as well as promote the use and injection of renewable fuels such as biomethane and synthetic gas from power-to-gas in the network.

17. Key figures of the Parent Company

The income and financial position for the year are shown in summary in the tables below, which have been obtained by reclassifying the data from the Income statement and the Statement of Financial Position, respectively, in accordance with operational criteria complying with international practice.

17.1 Reclassified Income Statement

Millions of euro	31.12.2017	31.12.2016	2017 - 2016
Revenue	**1,022.0**	**924.1**	**97.9**
Transport and sale of methane gas and LPG	555.5	551.5	4.0
Connection fees and accessory rights	14.6	19.4	(4.8)
Other sales and services	23.2	21.0	2.2
Revenue from intangible assets / assets under construction	237.0	204.1	32.9
Other revenue	191.7	128.1	63.6
Operating costs	**(616.3)**	**(526.8)**	**(89.5)**
Labour costs	(110.2)	(118.2)	8.0
Raw materials and inventories	(79.0)	(83.5)	4.6
Services	(235.6)	(204.0)	(31.6)
Other costs	(188.5)	(112.5)	(76.0)
Allocations to provisions for risks and charges	(4.2)	(8.8)	4.6
Increase in fixed assets not subject to IFRIC 12	1.1	0.2	0.9
EBITDA	**405.6**	**397.3**	**8.4**
Amortisation, depreciation and write-downs	**(159.9)**	**(154.3)**	**(5.6)**
Amortisation, depreciation and impairment losses	(159.9)	(154.3)	(5.6)
EBITDA	**245.7**	**243.0**	**2.7**
Net financial income (expenses) and income (expenses) from equity investments	(72.9)	(47.5)	(25.4)
Pre-tax income	**172.8**	**195.5**	**(22.7)**
Income taxes for the year	(52.1)	(66.5)	14.4
Net income (expenses) from continuing operations	**120.7**	**129.0**	**(8.3)**
Net income (expenses) from discontinued operations	-	-	-
Net income for the year	**120.7**	**129.0**	**(8.3)**

17.2 Reclassified Statement of Financial Position

Millions of euro	31.12.2017	31.12.2016	2017 - 2016
	A	A	A-B
Net fixed assets	**2,737.6**	**2,663.9**	**73.7**
Property, plant and equipment	37.4	37.7	(0.3)
Intangible assets	2,922.7	2,847.7	75.1
Equity investments	15.1	18.3	(3.2)
Other non-current assets	51.7	45.0	6.7
Other non-current liabilities	(310.3)	(302.1)	(8.2)
Fair value of derivatives	21.0	17.4	3.6
Net working capital:	**93.6**	**109.5**	**(15.9)**
Inventories	19.0	20.2	(1.2)
Trade receivables from third parties and the Group	272.3	233.2	39.1
Net receivables/(payables) for income taxes	19.4	(5.3)	24.7
Other current assets	169.1	178.7	(9.6)
Trade payables to third parties and the Group	(202.1)	(162.2)	(39.9)
Other current liabilities	(184.1)	(155.2)	(28.9)
Gross invested capital	**2,831.2**	**2,773.4**	**57.8**
Other provisions	**59.1**	**65.0**	**(5.9)**
Termination and other employee benefits	46.0	48.0	(2.1)
Provisions for risks and charges	85.8	84.5	1.3
Net deferred taxes	(72.7)	(67.5)	(5.2)
Net invested capital	**2,772.1**	**2,708.4**	**63.7**
Assets held for sale	**2.1**	**-**	**2.1**
Liabilities held for sale	**2.3**	**-**	**2.3**
Equity	**758.3**	**719.6**	**38.6**
Net Financial Position	**2,013.6**	**1,988.7**	**24.9**

18. Reconciliation of Equity and Net Income for the year

The reconciliation of Equity and Net Income for the year shown in the financial statements at 31 December 2017 of 2i Rete Gas S.p.A. and the corresponding values in the consolidated financial statements are as follows:

Thousands of euro	Net income for the year recognised through profit or loss 2017	Equity 31.12.2017
Separate financial statements of 2i Rete Gas S.p.A.	120,728	758,282
Surplus of shareholders' equity from financial statements of subsidiaries used for the purposes of consolidation, compared to the carrying values of the equity investments in subsidiaries	1,014	1,716
Derecognition of income from intercompany liquidation	(174)	
Consolidation adjustments for:		
Consolidation difference allocated to goodwill		19
Valuation of equity investments with the equity method	54	101
Intercompany margins	4	(264)
Deferred and prepaid taxes	(2)	78
Consolidated financial statements of 2i Rete Gas S.p.A.	121,624	759,932
Non-controlling interests		
Consolidated financial statements of 2i Rete Gas S.p.A. - owners of the Parent	**121,624**	**759,932**

The main impacts shown as "Consolidation adjustments" at 31 December 2017 derived largely from the elimination of the intercompany margins arising from the sale of Italcogim Trasporto's distribution network to the Parent Company.

2i Rete Gas S.p.A.
The Chief Executive Officer
Michele Enrico De Censi

IV Consolidated financial statements of the 2i Rete Gas Group

1. Income Statement

Thousands of euro	Note	31.12.2017	of which from related parties	31.12.2016	of which from related parties
Revenue					
Revenue from sales and services	5.a	600,313		598,654	1
Other revenue	5.b	190,395	18	124,748	479
Revenue from intangible assets / assets under construction	5.c	238,065		207,061	
Sub-Total		**1,028,773**		**930,463**	
Costs					
Raw materials and consumables	6.a	79,026		83,547	
Services	6.b	239,096	646	207,619	1,199
Personnel costs	6.c	110,257	1,819	118,303	2,605
Amortisation, depreciation and impairment losses	6.d	161,203		155,920	
Other operating costs	6.e	193,201	426	121,670	422
Capitalised costs for internal work	6.f	(1,099)		(234)	
Sub-Total		**781,684**		**686,826**	
EBIT		**247,089**		**243,637**	
Income / (expenses) from equity investments	7	87	62	171	141
Financial income	8	769	0	214	
Financial expenses	8	(73,855)		(47,810)	
Sub-Total		**(72,998)**		**(47,426)**	
Pre-tax income		**174,091**		**196,211**	
Taxes	9	52,466		66,747	
Net income from continuing operations		**121,624**		**129,464**	
Net income from discontinued operations	10	-		-	
NET INCOME FOR THE YEAR		**121,624**		**129,464**	
Net income for the year attributable to:					
- Owners of the Parent		121,624		129,464	
- Non-controlling interests		0		0	

2i Rete Gas S.p.A.
The Chief Executive Officer
Michele Enrico De Censi

2. Statement of Comprehensive Income

Thousands of euro	31.12.2017	31.12.2016
Net income recognised through profit or loss	**121,624**	**129,464**
- Net income attributable to owners of the Parent		
- Net income attributable to non-controlling interests		
Other comprehensive income		
Items which will never be reclassified in profit/(loss):		
Revaluations of net liabilities/assets for defined benefits - owners of the Parent	292	(1,589)
Revaluations of net liabilities/assets for defined benefits - non-controlling interests		
Deferred tax assets and liabilities on items which will never be classified through profit / (loss) - non-controlling interests		
Deferred tax assets and liabilities on items which will never be classified through profit / (loss) - owners of the Parent	(83)	453
	208	(1,136)
Items which may be reclassified subsequently through profit/(loss):		
Change in fair value of hedging derivatives - owners of the Parent		
Change in fair value of hedging derivatives - non-controlling interests	3,591	17,393
Change in fair value of hedging derivatives reclassified in profit for the period - owners of the Parent		
Change in fair value of hedging derivatives reclassified in profit for the period - non-controlling interests	-	-
Change in fair value of hedging derivatives (tax effect) - owners of the Parent		
Change in fair value of hedging derivatives (tax effect) - non-controlling interests	(862)	(4,174)
Change in fair value of hedging derivatives reclassified in profit for the period (tax effect) - owners of the Parent		
Change in fair value of hedging derivatives reclassified in profit for the period (tax effect) - non-controlling interests	-	-
	2,729	13,219
Total other comprehensive income	**2,937**	**12,083**
Total comprehensive income	**124,562**	**141,547**
Total comprehensive income attributable to:		
- Owners of the Parent	124,562	141,547
- Non controlling interests	0	-

Earnings per share: 0 0.3343 euro

Diluted earnings per share: 0.3343 euro

2i Rete Gas S.p.A.
The Chief Executive Officer
Michele Enrico De Censi

3. Statement of Financial Position

Assets

Thousands of euro	Notes	31.12.2017	of which from related parties	31.12.2016	of which from related parties
ASSETS					
Non-current assets					
Property, plant and equipment	11	37,458		37,780	
Intangible assets	12	2,937,360		2,862,738	
Net deferred tax assets	13	73,360		68,027	
Equity investments	14	3,070	2,553	3,375	2,858
Non-current financial assets	15	22,180		18,756	
Other non-current assets	16	51,796		45,051	
	Totale	**3,125,224**		**3,035,727**	
Current assets					
Inventories	17	19,008		20,293	
Trade receivables	18	273,880	18	234,104	1,636
Short-term financial receivables	19	8		917	100
Other current financial assets	20	9		14	
Cash and cash equivalents	21	816,138		183,197	
Income tax receivables	22	19,358		8,196	
Other current assets	23	172,370		181,053	
	Totale	**1,300,772**		**627,773**	
Non-current assets (or assets included in disposal groups) held for sale					
Non-current assets (or assets included in disposal groups) held for sale	37	2,141		-	
	Totale	**2,141**		**-**	
TOTAL ASSETS		**4,428,137**		**3,663,499**	

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Liabilities

Thousands of euro	Notes	31.12.2017	of which from related parties	31.12.2016	of which from related parties
EQUITY AND LIABILITIES					
Equity - Owners of the Parent	24				
Share capital		3,639		3,639	
Treasury shares		-		-	
Other reserves		510,161		507,237	
Retained earnings (accumulated losses)		124,508		80,076	
Net income for the year		121,624		129,464	
Total equity - Owners of the Parent		**759,932**		**720,416**	
Equity - non-controlling interests					
Non-controlling interests		-		-	
Net income for the year - non-controlling interests		-		-	
Total equity - non-controlling interests		**-**		**-**	
TOTAL EQUITY		**759,932**		**720,416**	
Non-current liabilities					
Long-term loans	25	2,806,984		2,148,424	
Post-employment and other employee benefits	26	46,036		48,086	
Provision for risks and charges	27	9,870		13,586	
Deferred tax liabilities	13	-		-	
Non-current financial liabilities	28	-		-	
Other non-current liabilities	29	311,429		303,120	10
	Totale	**3,174,319**		**2,513,217**	
Current liabilities					
Short-term loans	30	-		-	
Short-term bank loans	31	-		-	
Current portion of long-term provisions and short-term provisions	32	76,387		71,084	
Trade payables	33	208,103	780	166,737	1,363
Income tax payables	34	24		13,932	
Current financial liabilities	35	19,559		21,099	
Other current liabilities	36	187,482		157,013	630
	Totale	**491,555**		**429,866**	
Non-current liabilities (or liabilities included in disposal groups) held for sale					
Non-current liabilities (or liabilities included in disposal groups) held for sale	37	2,332		-	
	Totale	**2,332**		**-**	
TOTAL LIABILITIES		**3,668,206**		**2,943,083**	
TOTAL EQUITY AND LIABILITIES		**4,428,137**		**3,663,499**	

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4. Statement of Cash Flows

Thousands of euro		31.12.2017	31.12.2016
A) CASH AND CASH EQUIVALENTS - OPENING BALANCE	**21**	**183,197**	**160,541**
Cash flow from operating activities			
Pre-tax income		174,091	196,211
Income taxes for the period	9	(52,466)	(66,747)
Net income from discontinued operations	10	-	-
1. Net income for the year		**121,624**	**129,464**
Adjustments for:			
Amortisation	6.d	158,304	153,910
Write-downs/(Write-ups)	6.d	2,900	2,010
Capital (gains)/losses	5.b/6.e	19,181	11,203
Allocations to provisions for risks and charges and post-employment benefits		11,741	20,630
Financial (income)/expenses	7 e 8	72,998	47,426
2. Total adjustments		**265,124**	**235,179**
Change in net working capital			
Inventories	17	1,285	(6,483)
Trade receivables	18	(41,765)	4,030
Trade payables	33	43,698	(2,592)
Other current assets	23	7,362	(35,269)
Other current liabilities	36 e 37	30,469	(13,347)
Net tax receivables/(payables)	22 e 34	(25,070)	14,410
Increase/(decrease) in provisions for risks and charges and post-employment benefits	26, 27 e 32	(11,915)	(10,354)
Increase/(decrease) in provisions for deferred tax assets and liabilities	13	(6,412)	(2,914)
Other non-current assets	16	(6,745)	(13,003)
Other non-current liabilities	29	8,309	6,978
Financial income/(expenses) not for financing activities	8	(283)	(1,066)
3. Total change in net working capital		**(1,066)**	**(59,610)**
B) CASH FLOW FROM OPERATING ACTIVITIES (1+2+3)		**385,682**	**305,033**
Cash flow (used in) generated by investing activities			
Net fixed assets		(253,384)	(226,754)
Purchase of subsidiary and income from equity investments	7 e 14	393	129
Cash acquired through company acquisition		-	-
C) CASH FLOW (USED IN) GENERATED BY INVESTING ACTIVITIES		**(252,991)**	**(226,625)**
D) FREE CASH FLOW (B+C)		**132,691**	**78,408**
Cash flow generated by financing activities			
Payment of dividends		(85,032)	(85,032)
Change in reserves		(14)	-
Change in amortised cost	15, 25 e 31	(1,202)	6,551
Financial income for financing activities	8	55	130
Financial (expenses) for financing activities	8	(72,858)	(46,660)
New loan	25	155,000	70,000
Receipts from debenture loans	25	1,165,000	-
Debenture loan settlements	25	(660,107)	
Change in other non-current financial assets	15	35	154
Change in other financial receivables	19 e 20	913	(599)
Change in other financial payables	35	(1,540)	(295)
E) CASH FLOW FROM FINANCING ACTIVITIES		**500,250**	**(55,752)**
F) CASH FLOW FOR THE PERIOD (D+E)		**632,941**	**22,656**
G) CASH AND CASH EQUIVALENTS - CLOSING BALANCE	**21**	**816,138**	**183,197**

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5. Statement of Changes in Equity

	Share capital and reserves									
Thousands of euro	Share capital	Share premium reserves	Legal reserve	Reserves for valuation of derivatives	Other reserves	Retained earnings	Net income for the year	Total - Owners of the Parent	Total - Non-controlling interests	Total consolidated equity
Total 31 December 2015	**3,639**	**286,546**	**728**	**-**	**207,101**	**77,913**	**87,974**	**663,901**	**-**	**663,901**
Allocation of result for 2015:										
Allocation of result	-	-	-	-	-	87,974	(87,974)	-	-	-
Contribution from shareholders and payments to them as shareholders								-		-
- Dividend payout	-	-	-	-	-	(85,032)	-	(85,032)	-	(85,032)
Total contribution from shareholders and payments to them as shareholders								*(85,032)*		*(85,032)*
- Other changes (merger of GP GAS)	-	-	-	-	779	(779)	-	-	-	-
- Change in IAS reserves	-	-	-	13,219	(1,136)	-	-	12,083	-	12,083
- Net income for the year recognised in profit or loss	-	-	-	-	-	-	129,464	129,464		129,464
Total 31 December 2016	**3,639**	**286,546**	**728**	**13,219**	**206,744**	**80,076**	**129,464**	**720,416**	**-**	**720,416**
Allocation of result for 2016:										
Allocation of result	-	-	-	-	-	129,464	(129,464)	-	-	-
- Dividend payout	-	-	-	-	-	(85,032)	-	(85,032)	-	(85,032)
Total contribution from shareholders and payments to them as shareholders								*(85,032)*		*(85,032)*
- Net income for the year recognised in Equity	-	-	-	-	(14)	-	-	(14)	-	(14)
- Change in IAS reserves	-	-	-	2,729	208	-	-	2,937	-	2,937
- Net income for the year recognised in profit or loss	-	-	-	-	-	-	121,624	121,624		121,624
Total 31 December 2017	**3,639**	**286,546**	**728**	**15,948**	**206,939**	**124,508**	**121,624**	**759,932**	**-**	**759,932**

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6. Notes to the Consolidated Financial Statements

Format and contents of the Financial Statements

The 2i Rete Gas Group operates in the gas distribution sector. The Parent Company 2i Rete Gas S.p.A. is a public limited company and is located in Milan, Via Alberico Albricci, 10.

The territorial structure of the Parent Company consists of six departments.
The departmental offices are:

- North West Department - Via Gazzoletto, 16/18 - 26100 Cremona (province of Cremona)
- North Department - Via Francesco Rismondo, 14 - 21049 Tradate (province of Varese)
- North East Department - Via Serassi, 17/Rs - 24124 Bergamo (province of Bergamo)
- Central Department - Via Morettini, 39 - 06128 Perugia (province of Perugia)
- South-West Department - Via Paul Harris, 63 - 81100 Caserta (province of Caserta)
- South East Department - Via Enrico Mattei - 72100 Brindisi (province of Brindisi)

The Directors of 2i Rete Gas S.p.A., on 23 March 2018, approved these consolidated financial statements and agreed to make them available to Shareholders within the deadlines set forth in art. 2429 of the Italian Civil Code.
For the purposes of IAS 10.17, the date taken into consideration by the Directors in preparing the financial statements is 23 March 2018.
These consolidated financial statements are audited by PricewaterhouseCoopers S.p.A.

Compliance with IFRS/IAS

The consolidated financial statements for the year ended 31 December 2017 have been prepared in compliance with the International Financial Reporting Standards (IAS/IFRS) issued by the International Accounting Standards Board (IASB), as endorsed by the European Union pursuant to Regulation (EC) No. 1606/2002 and effective at the end of the year, the related SIC/IFRIC interpretations issued by the Interpretation Committee, in force at the same date. The above standards and interpretations are hereinafter referred to as “IFRS-EU”.

Reporting and valuation criteria

These consolidated financial statements have been drawn up using a standard application of the accounting standards set out below for all the years shown.

Basis of presentation

The consolidated financial statements consist of the Income Statement, the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Changes in Equity, the Statement of Cash Flows and the related Notes.
The assets and liabilities reported in the Statement of Financial Position are classified on a "current/non-current" basis, separately disclosing the assets and liabilities held for sale.
Current assets, which include cash and cash equivalents, are those intended to be realised, sold or used during the Group's normal operating cycle or in the twelve months following the reporting period; current liabilities are those expected to be settled during the Group's normal operating cycle or in the twelve months following the reporting period.
Items in the Income Statement are classified based on the nature of expenses, while the Statement of Cash Flows is presented using the indirect method.
The consolidated financial statements are presented in euro (the functional currency) and the values shown in the notes are expressed in thousands of euro, unless otherwise stated.
The consolidated financial statements have been prepared using the historical cost method, except for those items which, in accordance with the IFRS-EU, are measured at fair value, as indicated in the valuation criteria for the individual items.
These consolidated financial statements have been prepared on a going-concern basis, as set out more in detail in the Directors' Report.

Consolidation criteria

The consolidated financial statements are prepared consolidating the data of the Parent Company and of the investee companies it controls, directly or indirectly, on a line-by-line basis. Control exists when the Group is exposed to variable returns arising from its relationship with the Company, or has rights over such returns, and at the same time has the ability to affect them by exercising its power over the Company. The financial statements of subsidiaries are included in the consolidated financial statements from when the Parent Company starts to exercise control until the date when such control ends.
The Group accounts for business combinations by applying the acquisition method on the date when it effectively obtains control of the purchased company. In this regard, reference should be made to the section "Business combinations" below.
Third-party equity investments are valued in proportion to the related share of net identifiable assets of the purchased company at the acquisition date. The changes in the

Group's stake in a subsidiary which do not entail loss of control are recognised as transactions among shareholders in their role as shareholders.
In the case of loss of control, the Group derecognises the subsidiary's assets and liabilities, any third-party equity investments and other equity items relating to the subsidiaries. The profit or loss arising from the loss of control is recognised through profit or loss. Any residual equity investment held in the former subsidiary is measured at fair value at the date of loss of control.
In drawing up the consolidated financial statements, debit and credit items are derecognised, as well as costs and revenues of all significant transactions among the companies included in the consolidation scope. Unrealised profits are also derecognised, as well as capital gains and losses arising from transactions among Group companies.

Use of estimates

Preparing the financial statements under the IFRS-EU requires the use of estimates and assumptions which impact the values of assets and liabilities and disclosure on contingent assets and liabilities at the reporting date, as well as on total revenues and costs in the reporting period. The estimates and the related assumptions are based on previous experience and other factors considered reasonable in the circumstances. They are adopted when the carrying amount of financial statement items cannot be easily deduced from other sources. The actual results might therefore differ from these estimates. The estimates and assumptions are periodically revised and the effect of each change is reflected in profit or loss, should that revision relate only to the year in question. Should the revision relate to both current and future years, the change is recorded in the year in which it is carried out and in the related future periods.

Revenue recognition

Revenue from gas transport is determined annually on the basis of the tariff regulation in force, which, as from 2009, sets forth the definition of the tariff revenue cap (known as VRT, *Vincolo dei Ricavi Tariffari*) which is allowed for each gas distribution company. On the basis of Resolution 573/2013/R/gas of December 2013, parameters which regulate the calculation of the VRT for the years from 2014 to 2019 (Fourth Regulatory Period) have been defined.
This figure for revenue is accounted for in the invoicing of gas transport to sales companies and, to complement the VRT value, in the CSEA equalisation element.
Since it is necessary to base the VRT calculation on an asset recognition which is updated to the previous year, the Company must also estimate a growth rate for its average active Redelivery Points to enable the updating of the figure for the year just ended.
Therefore, the value indicated also includes an estimated element, whose impact is largely insignificant, connected to the increase in the average number of active Redelivery Points.

When the balance is calculated, the value of the VRT annually communicated by the ARERA by means of a specific resolution may be subject to change depending on the actual average number of Redelivery Points served and invoiced.

Pensions and other post-employment benefits

Some Company employees participate in pension plans which offer benefits based on their wage trend and years of service. In addition, some employees benefit from other post-employment benefit schemes.
The expenses and liabilities associated with these plans are calculated on the basis of estimates made by our actuarial consultants, who use a combination of statistical and actuarial elements, including statistics relating to past years and forecasts of future costs. Estimates are also made of death and withdrawal rates, assumptions on the future trend in discount rates, the rates of wage increases and trends in the cost of medical care.
These estimates can significantly differ from actual results, owing to changes in economic and market conditions, increases or decreases in withdrawal rates and the lifespan of participants, as well as changes in the actual cost of medical care. Such differences can have a substantial impact on the quantification of pension costs and other related charges.

Recoverability of non-current assets

The carrying amount of non-current assets and assets held for sale is periodically tested for impairment and wherever circumstances or events suggest that more frequent test is necessary.
Where the carrying amount of a group of fixed assets is considered to be impaired, it is written down to its recoverable value, as estimated on the basis of the use of the assets and their future disposal, in accordance with the Company's most recent plans.
The estimates of such recoverable values are considered reasonable. Nevertheless, possible changes in the factors for estimating such recoverable values could generate different results. For further details on the means of carrying out the impairment test and its results, reference should be made to the specific section.

Disputes

The 2i Rete Gas Group is involved in various legal disputes relating mainly to labour cases and litigation with some granting bodies.
Given the nature of these disputes, it is not always objectively possible to foresee the final outcome of these proceedings, some of which could end with a negative outcome.
The estimate of the provisions is the result of a complex process which entails subjective assessments by management. The provisions for risks recorded in the financial statements have been estimated to cover all the significant liabilities for cases where lawyers have noted a likely negative outcome and made a reasonable estimate of the amount of the loss.

Provision for doubtful debts

This provision reflects the estimates of losses on the Company's receivables portfolio. Allocations have been made for forecast losses on receivables, estimated on the basis of past experience in reference to receivables with similar credit risk, to current and historical unpaid amounts, write-offs and receipts as well as careful monitoring of the quality of the receivables portfolio and the current and forecast state of the economy and key markets.
Although the provision allocated is adequate, the use of different assumptions or a change in the economic circumstances could result in changes to the provision for doubtful debts and, therefore, have an impact on profits.
The estimates and the assumptions are periodically revised and the impact of each change is reflected in profit or loss in the relevant year.

Equity investments in associates and companies subject to joint control

Equity investments in associates are those in which the 2i Rete Gas Group has considerable influence over the financial and operational policies, although not holding control or joint control.
Companies subject to joint control or joint ventures are companies where the Group, by virtue of an agreement, claims rights over net assets.
Equity investments in associates and in joint ventures are initially recognised at cost and subsequently recognised on an equity basis. The cost of the investment includes transaction costs. The consolidated financial statements include the Group's share of profits or losses of the investee companies accounted for using the equity method, until the date on which said considerable influence or joint control ends.

Business combinations

Business combinations subsequent to 1 January 2010 are recognised using the acquisition method envisaged by IFRS 3 (Revised). The identifiable assets acquired and the liabilities assumed are measured at their respective fair values at the acquisition date. Any surplus in the purchase cost over the fair value of the net assets acquired is accounted for as goodwill or, if a deficit, recognised in profit or loss. The carrying value of any goodwill is subject to annual impairment testing in order to identify any impairment.
Should it be possible to determine the fair value of the assets, liabilities and identifiable contingent liabilities only provisionally, the business combination is recognised using these provisional values. Any adjustment arising from the completion of the valuation process is recognised within 12 months of the acquisition date.

Transaction costs, other than those relating to the issue of debt securities and equity, which are incurred by the Group to make a business combination, are recognised as operating costs when incurred.

Combinations of entities under common control

Business combinations under which the participating companies are definitively controlled by the same company or companies both before and after the combination, and this control is not temporary, are regarded as "under common control" transactions.
These transactions are not regulated by IFRS 3 or by other IFRSs. In the absence of a relevant international accounting standard, in compliance with the principle of prudence which entails application of the criterion of continuity of values for the net assets acquired, the Group has opted to recognise assets and liabilities from any combinations of entities under common control at the carrying value which these assets and liabilities had in the financial statements of the seller/acquiree or in the consolidated financial statements of the common controlling entity. Where the transfer values are higher than the historical values, the surplus is eliminated by writing down the Group's equity.

Property, plant and equipment

In compliance with IFRIC 12, effective as from 1 January 2010, the Group analysed its outstanding concessions at 31 December 2010 and made changes to the accounting treatment of fixed assets. As better specified below, following application of IFRIC 12, some fixed assets which were previously considered as tangible are now reclassified as intangible.

Property, plant and equipment not relating to gas distribution concessions are recognised at historical cost, including directly attributable ancillary costs necessary for the asset to be ready; subject to any legal or implicit obligations, the cost may be increased by the present value of the cost estimated for the dismantling and removal of the asset. The corresponding liability is recognised in liabilities under a specific provision for future risks and charges. Currently, no liability linked to the dismantling and removal of assets is recognised, since there are no legal or implicit obligations which justify such recognition.
The purchase or production cost includes the financial expenses relating to loans connected to the purchase of tangible assets, exclusively when a significant period of time must elapse before the asset is ready for use and when the loans directly attributable to the purchase or construction of the asset are identifiable.
Some assets, which were revalued at the date of transition to the IFRS-EU or in previous periods, have been recognised on the basis of the revalued cost, considered as deemed cost.
Should significant parts of individual tangible assets have different useful lives, the identified components are recognised and depreciated separately.
The costs incurred subsequent to the purchase are recognised as an increase in the carrying amount of the asset to which they refer, when it is probable that future economic benefits

deriving from the cost will flow to the Group and the cost of the item can be reliably determined. All other costs are recognised in profit or loss in the year in which they are incurred.
The cost of replacing part or all of an asset is recognised as an increase in the value of the asset to which it refers and is depreciated over its residual useful life; the net carrying amount of the replaced unit is recognised in profit or loss, with recognition of any capital loss.
Property, plant and equipment are recognised net of accumulated depreciation and any impairment losses, determined as set out below.

Depreciation is calculated on a straight-line basis over the asset's estimated useful life, which is reviewed annually; any changes are applied on a prospective basis. Depreciation begins when the asset is ready for use.

The estimated useful life of the main tangible assets is as follows:

Description	Useful Life
Land	-
Non-industrial buildings	50
Industrial buildings	50
Miscellaneous equipment	10
Office furniture and equipment	5, 10
Electronic devices	5
Vehicles	5
Cars	5

Land, both unbuilt and with industrial and non-industrial buildings, is not depreciated as it has an indefinite useful life, except for the land which is transferred for free at the end of the concession.

Intangible assets

As noted above, in compliance with IFRIC 12, effective as from 1 January 2010, the Group analysed its outstanding concessions at 31 December 2010 and made changes to the accounting treatment of fixed assets. In particular, since the Group is subject to demand risk, the accounting treatment which it considered correct to apply is that of intangible assets: all the proprietary infrastructure obtained under a concession contract is no longer recognised as tangible assets but classified as intangible assets.

Intangible assets are measured at purchase or internal production cost, when it is likely that the use of such assets will generate future economic benefits and the related cost can be reliably determined.
The cost includes directly attributable ancillary expenses necessary to make the assets ready for use. The cost includes the financial expenses relating to the loans connected to the

purchase of intangible assets, exclusively when a significant period of time must elapse before the asset is ready for use and when the loans directly attributable to the purchase or construction of the asset are identifiable.

Intangible assets which have a finite useful life are shown net of accumulated amortisation and any impairment losses, determined as follows.
Amortisation is calculated on a straight-line basis over the item's estimated useful life, which is reviewed at least annually; any changes in amortisation methods are applied on a prospective basis.
Amortisation begins when the intangible asset is ready for use.
The estimated useful life of the main intangible assets is as follows:

Description	Useful Life
Intellectual property rights	5 years
Concessions	concession life (*)
Licences, trademarks and similar rights	3 years
Goodwill	indefinite, subject to impairment testing
Others	5-10 years - Useful life of contract

(*) Amortisation is calculated based on the realisable value estimated at the end of the concession life, where applicable. In case of concessions expired at the end of the reporting period and whose expiration date has been postponed, the residual value is reviewed taking into account the relevant expiration postponement.

Intangible assets which have an indefinite useful life are not systematically amortised but are tested at least annually for impairment.

As for concessions, the 2i Rete Gas Group holds the concession for the gas distribution service assigned by tender for a maximum period of 12 years by local authorities (municipalities, municipality groups and mountain communities). Through service agreements, local authorities can set the terms and conditions for the distribution service, as well as the quality levels to be achieved. The concessions are allocated on the basis of the financial conditions, quality and safety standards, investment plans and the technical and managerial capabilities offered.
As in the previous Report, it should be highlighted that a significant number of concessions obtained by the 2i Rete Gas Group for gas distribution were terminated on the basis of their natural expiry or by law at 31 December 2010.
It should be recalled that, since the publication of Italian Legislative Decree No. 93/11 on 29 June 2011, local authorities can no longer call new tenders except within the provisions included in the so-called "*Decreto Ambiti*" and "*Decreto Criteri*" issued in 2011. For this reason, currently only the local authorities which had called tenders for the assignment of gas distribution concessions prior to publication of Italian Legislative Decree No. 93/11 can proceed with such tenders. In all the other cases, tenders are suspended until municipalities

are ready to call them on a territorial basis. In the meantime, the 2i Rete Gas Group is continuing with the management of the network in the same way as prior to the expiry.
Should the concession not be reassigned to the Group, the Group would have the right to compensation equal to the industrial value of the assets used for the concession determined in accordance with the relevant laws.

Impairment losses

Tangible and intangible assets are reviewed at least once a year to determine whether there is evidence of impairment. If such evidence exists, their recoverable amount is estimated.
The recoverable amount of goodwill and intangible assets with an indefinite useful life, if any, as well as that of intangible assets not yet available for use, is estimated at least annually.
For an asset which does not generate fully independent cash flows, including goodwill, the recoverable value is determined in relation to the cash generating unit (CGU) to which this asset belongs.
In this regard, please note that the Group as a whole is considered to be a CGU.
The recoverable amount is the higher of an asset's fair value, net of disposal costs, and its value in use.
In determining the value in use, the expected future cash flows are discounted using a discount rate which reflects the current market valuations of the cost of funding in relation to the timing and specific risks of the asset.
An impairment is recognised in profit or loss if the carrying amount of an asset, or of the CGU to which it is allocated, is higher than its recoverable amount.
The impairment of a CGU is first charged against the carrying amount of any goodwill allocated to the CGU, then proportionally, to reduce the other assets which make up the CGU.
Impairment losses are reversed if the impairment has been reduced or is no longer present or there has been a change in the assumptions used to determine the recoverable amount.
Impairment of goodwill can never be reversed in future years.

Inventories

Inventories are measured at the lower of cost and the net realisable value. The weighted average cost method is used, which includes relevant ancillary expenses. The net realisable value is the sale price estimated in normal business operations, net of the costs estimated for the sale or, where applicable, the replacement cost.

Financial instruments

The initial recognition of non-derivative financial assets and liabilities takes place, for loans, receivables and debt securities issued, at the moment when they originated, while for all the other financial assets and liabilities it takes place on the trading date.
Financial assets are derecognised when: i) the contractual rights to receive cash flows end; ii) when the Group has maintained the right to receive cash flows from the asset, but has taken on the contractual obligation to pay them in full without any delay to a third party; or iii) when the Group has transferred the right to receive cash flows from the asset and has substantially transferred all the risks and benefits of ownership of the financial asset, or has transferred control over the financial asset.
Any residual involvement in the transferred asset which is originated or maintained by the Group is recorded as a separate asset or liability.
The Group derecognises a financial liability when the obligation specified in the contract was fulfilled or cancelled or had expired.

Fair Value Hierarchy under IFRS 13

In accordance with IFRS 13, assets and liabilities recognised at fair value in the consolidated financial statements are measured and classified based on the fair value hierarchy outlined by the standard, which consists in three levels based on the observability of the inputs to the corresponding valuation technique. Fair value hierarchy levels are based on the type of inputs used to determine fair value:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date.

Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly (e.g. quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets that are not active; inputs other than quoted prices that are observable for the asset or liability; market-corroborated inputs).

Level 3: unobservable data for the asset or liability, reflecting the assumptions that market participants should use in pricing the asset or liability, including the risk assumptions (of the model and the inputs used).
The fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement. Assessing the significance of a particular input to the entire fair value measurement requires judgement, taking into account factors specific to the asset or liability.

A fair value measurement developed using a present value technique might be categorised within Level 2 or Level 3, depending on the inputs that are significant to the entire measurement and the level of the fair value hierarchy within which those inputs are categorised.
If an observable input requires an adjustment using unobservable inputs and that adjustment is material to the measurement, the resulting measurement would be categorised within the same level as the lowest level input used.
The Group has implemented adequate controls to monitor all measurements, including those received from third parties. If those checks show that the measurement cannot be considered as market corroborated, the instrument must be categorised within level 3.

Financial assets measured at fair value through profit or loss

This category includes any financial assets held for trading or measured at fair value through profit or loss at the time of initial recognition.
Such assets are initially recognised at their fair value. The attributable transaction costs are recognised in profit or loss when they are incurred. Profit and losses from subsequent changes in their fair value are recognised in profit or loss.

Financial assets held to maturity

This category includes non-derivative financial instruments quoted in an active market that do not represent equity investments, which the Company can and intends to hold until maturity. They are initially recognised at fair value, including any transaction costs; subsequently, they are measured at amortised cost using the effective interest rate method, net of impairment (if any).
Any impairment losses are calculated as the difference between the carrying amount of the asset and the present value of expected future cash flows, discounted on the basis of the original effective interest rate.

Loans and receivables

This category includes financial and trade receivables, including non-derivative debt securities, with fixed or determinable payments, that are not quoted on an active market and that the Group does not originally intend to sell.
Such assets are initially recognised at fair value, adjusted for any transaction costs, and subsequently measured at amortised cost using the effective interest rate method, adjusted for any impairment losses. Such impairment losses are calculated as the difference between the carrying amount of the asset and the present value of future cash flows, discounted at the original effective interest rate.
Trade receivables falling due in line with generally accepted trade conditions are not discounted.

Receivables relating to energy efficiency certificates refer to contributions which will be awarded by the Fund for Energy and Environmental Services (CSEA) for certificates in the 2i Rete Gas Group's portfolio.

Financial assets available for sale

This category includes debt securities, equity investments in other entities (if classified as "available for sale") and financial assets that cannot be classified in other categories. Such assets are initially recognised at fair value increased by any transaction costs. After initial recognition, these instruments are measured at fair value against the other components of the statement of comprehensive income.
At the time of sale, retained earnings and accumulated losses are reclassified from other comprehensive income to profit or loss.
Where there is objective evidence that such assets have suffered an impairment loss, the accumulated loss is recognised in profit or loss. Such impairment losses, which cannot be subsequently reversed, are calculated as the difference between the carrying amount of the asset and the present value of future cash flows, discounted at the market interest rate for similar financial assets.
When the fair value cannot be reliably determined, these assets are recognised at cost adjusted for any impairment losses.

Cash and cash equivalents

This category is used to record cash and cash equivalents that are available on demand or at very short term, clear successfully and do not incur collection costs.
For the statement of cash flows, cash and cash equivalents comprise bank and post office deposits and cash in hand.

Trade payables

Trade payables are initially recognised at fair value and subsequently measured at amortised cost. Trade payables falling due in line with generally accepted trade conditions are not discounted.

Financial liabilities

Financial liabilities other than derivatives are initially recognised at fair value at the settlement date, net of directly attributable transaction costs. Financial liabilities are subsequently measured at amortised cost, using the effective interest rate method.

Derivative financial instruments

Derivatives, if any, are recognised at fair value and are designated as hedging instruments when the relationship between the derivative financial instrument and the hedged item is

formally documented and the effectiveness of the hedge is high (based on a periodical assessment).
Recognition of the result of measurement at fair value depends on the type of hedge accounting adopted.
When the derivatives are used to hedge the risk of changes in the fair value of hedged assets or liabilities (fair value hedge), any changes in the fair value of the hedging instrument are recognised in profit or loss; likewise, adjustments to the fair values of the hedged assets or liabilities are also recognised in profit or loss.
When the derivatives are used to hedge the risk of changes in cash flows of hedged items (cash flow hedge), the changes in the fair value that are considered effective are recognised in other comprehensive income, and presented in a specific equity reserve, and subsequently reclassified to profit or loss in line with the economic effects produced by the hedged transaction.
The ineffective portion of the fair value of the hedging instrument is recognised in profit or loss.
Changes in the fair value of derivatives that no longer qualify for hedge accounting under IFRS-EU are recognised in profit or loss.
The accounting for such instruments is done at the trading date.
Financial and non-financial contracts (where they have not already been measured at fair value) are assessed to determine whether they contain any embedded derivatives that need to be separated and measured at fair value. This analysis is conducted at the time the entity becomes party to the contract or when the contract is renegotiated so that it significantly changes the original associated cash flows.
Fair value is determined using the official prices for instruments traded on regulated markets. For instruments not traded on regulated markets, fair value is determined by discounting expected cash flows on the basis of the market interest rate curve at the end of the reporting period and translating amounts in currencies other than the euro at period-end exchange rates.

Employee benefits

Liabilities related to employee benefits paid upon or after leaving employment and in connection with defined benefit plans or other long-term benefits granted during the employment period are determined separately for each plan, using actuarial assumptions to estimate the amount of the future benefits that employees have accrued at the end of the reporting period. The liability is recognised on an accrual basis over the vesting period of the related rights. These measurements are performed by independent actuaries. Following the adoption of IAS 19 (2011), the actuarial gains/losses that emerge following these measurements are immediately recognised in other comprehensive income.
Where the Group shows a demonstrable commitment, with a detailed formal plan without realistic possibility of withdrawal, to a termination before retirement eligibility has been reached, the benefits due to employees in respect of the termination are recognised as a cost and measured on the basis of the number of employees that are expected to accept the offer.

Provisions for risks and charges

Allocations to provisions for risks and charges are recognised when, at the reporting date, there is a legal or implicit obligation towards third parties, as a result of a past event, the settlement of which is expected to result in an outflow of resources whose amount can be reliably estimated. Where the effect is significant, allocations are determined by discounting expected future cash flows using a pre-tax discount rate that reflects the current market value of the cost of funding in relation to timing and, if applicable, the specific risks of the obligation. If the amount is discounted, the periodic adjustment of the present value due to timing is recognised as a financial expense in profit or loss.

Contributions

Whether they are from public entities or third parties operating in the private sector, contributions are recognised at fair value when it is reasonably certain that they will be received and that the conditions for their recognition will be met.
Contributions received for specific expenditures are systematically recognised among other liabilities and taken to profit or loss over the period in which the related costs are incurred.
Public contributions (plant contributions) received for specific assets whose value is recognised among tangible and intangible assets are recognised among other liabilities and taken to profit or loss over the amortisation/depreciation period of the assets they refer to.
Private contributions (connection fees, including property subdivision contributions) are recognised in a specific liability item in the statement of financial position and taken to profit or loss in relation to the amortisation/depreciation period of the assets they refer to.
However, in consideration of the fact that the aforementioned contribution also pays the operating costs relating to the activity required for the carrying out of the investment, it should be noted that the revenue percentage for contributions collected from customers to cover overhead costs which are accessory to the investment activity is fully recognised in profit or loss in the period in which the investment is made.

Revenue and costs

Revenue is recognised using the following criteria depending on the type of transaction:
- revenue from sales of asset is recognised when the significant risks and rewards of ownership of the assets sold are transferred to the buyer and their amount can be reliably determined and collected;
- revenue from gas transport is accrued on the basis of the tariffs and the related restrictions envisaged by legal provisions and by the provisions of ARERA, in force during the reporting period. The introduction of the new formula for gas transport revenue recognition, which was applied as from 2009, with the coming into force of Resolution ARG/gas No. 159/08, and largely reconfirmed in ARERA Resolutions 573/13 and 367/14, led to the introduction of an

equalisation mechanism which enables the relevant distribution companies' revenue to be calculated in order to remunerate the invested capital and the operating costs attributable to the gas distribution and metering service, regardless of the volumes distributed;
- revenue from the rendering of services is recognised in line with the stage of completion of the services. Should it not be possible to reliably determine the value of revenue, it is recognised up to the amount of the costs incurred and expected to be recovered.

Costs are recognised when they relate to goods and services sold or used in the year or allocated through systematic accrual when it is not possible to identify their future benefit.

Financial income and expenses

Financial income and expenses are recognised on an accrual basis in line with interest accrued on the net value of the related financial assets and liabilities using the effective interest rate method.

Dividends

Dividends from equity investments are recognised when the right of the shareholders to receive the dividend payment is established.
The dividends payable to third parties are recognised as a change in equity on the date on which they are approved by the Shareholders' Meeting.

Income taxes

Current income taxes for the year, recognised as "income tax payables" net of advances paid or as "income tax receivables" if the net balance is positive, are determined on the basis of the estimated taxable income and in accordance with the current fiscal regulations or the fiscal regulations essentially in force at the end of the reporting period.
Deferred tax liabilities and assets, which are set out in the tables as the net impact of the two items under assets, are calculated based on the temporary differences between the carrying amounts recorded in the financial statements and their corresponding values recognised for tax purposes by applying the tax rates effective on the date the temporary difference will be settled, based on the tax rates that are in force or essentially in force at the reporting date.
Deferred tax assets are recognised when recovery is likely, i.e. when sufficient future taxable income is expected to be available to recover the assets. Recoverability of deferred tax assets is re-examined at the end of each reporting period.
Taxes relating to components that are directly recognised in equity are also recognised in equity.

Discontinued operations and non-current assets held for sale

Non-current assets (or disposal groups) whose carrying amount will mainly be recovered through sale rather than ongoing use are classified as held for sale and shown separately from the other assets and liabilities in the Statement of financial position. These non-current assets (or disposal groups) are initially recognised according to the appropriate IAS/IFRS that is applicable to each asset and liability and subsequently at the lower of their carrying amount and their fair value, net of selling costs. Any subsequent impairment loss is directly recognised against any non-current assets (or disposal groups) classified as held for sale and recognised through profit or loss. The relevant carrying amounts for the previous year are not reclassified.
A discontinued operation is a part of a business which has been sold or classified as held for sale and which:

- represents a significant branch or geographical area of activity;
- is part of a coordinated plan for the disposal of a significant branch or geographical area of activity, or
- is a subsidiary that was purchased only to be resold.

Results of discontinued operations, whether they have been sold or classified as held for sale and in the process of being sold, are recognised separately in profit or loss, net of tax effects. The corresponding values for the previous year, if any, are reclassified and recognised separately in profit or loss, net of tax effects, for comparative purposes.

Recently issued accounting standards

Pursuant to IAS 8, the following section “Accounting standards, amendments and interpretations applicable by the Group as from this year” sets out the main features of the amendments to the International Accounting Standards in force as from 1 January 2017 and of potential interest for the Group.
In the following sections, there is an indication of the accounting standards and interpretations which have already been issued, but not yet come into force, or which have not yet been endorsed by the European Union and are therefore not applicable for the drafting of the financial statements at 31 December 2017, the impact of which may be included as from the financial statements for subsequent years.

Accounting standards, amendments and interpretations applicable by the Group as from this year

As from 1 January 2017, some additions have been applied consequent to specific sections of the international accounting standards which have already been adopted by the Group in previous years, none of which has had a significant impact on the Group’s economic and financial results.

The main changes are set out below.

- Amendments to IAS 7 – Disclosure initiative – The aim of these amendments is to improve disclosure relating to the net cash flow arising from / used in financing activities and to the entity's liquidity, in particular in case of restrictions on the use of cash and cash equivalents on the statement of cash flows. In addition, the amendments require a disclosure of changes in assets / liabilities, distinguishing between changes arising from cash flows and non-cash changes (e.g. changes from gaining or losing control in subsidiaries or in other businesses, the effect of a change in exchange rates and changes in fair value)

- Amendments to IAS 12 – Recognition of deferred tax assets for unrealised losses. These amendments clarify how to recognise deferred tax assets relating to debt instruments measured at fair value.

- Improvements to IFRSs 2014-2016 Cycle (issued by the IASB in December 2016) – The IASB issued a series of changes to 3 standards in force regarding, in particular, the following aspects: clarification of the scope of application of IFRS 12 – Disclosure of interests in other entities - in the case of entities that fall within the scope of application of IFRS 5 – Non-current assets held for sale and discontinued operations; measurement at fair value of associates or joint ventures in the presence of investment entities in IAS 28 – Investments in associates and joint ventures; derecognition of short-term exemptions for first-time adopters in IFRS 1 – First-time adoption of IFRS.

International accounting standard and/or interpretations issued but still not in force in 2017

As required by IAS 8 "Accounting policies, changes in accounting estimates and errors", the new standards or interpretations which have already been issued, but which have still not come into force or have still not been endorsed by the European Union at 31 December 2017, and are therefore not applicable, are indicated below.

- Amendments to IFRS 10 and IAS 28 – Sales or contributions of assets between an investor and its associate or joint venture – The IASB issued these amendments to eliminate an inconsistency between IFRS 10 and IAS 28, clarifying that the gain or loss resulting from the sale / contribution of assets that constitute a business as defined in IFRS 3 any is recognised in full; if not, only a partial recognition is carried out.
  These amendments, which were indefinitely deferred, have still not been endorsed by the European Union.

- IFRS 9 – Financial instruments – IFRS 9, which will replace IAS 39 Financial instruments: Recognition and measurement, is divided into 3 parts:
  Classification and measurement of financial instruments based on the entity's business model of the and of the characteristics of the cash flows generated by the financial instruments;
  Impairment of the financial instruments on the basis of a new and single impairment model which is based on recognition of an entity's expected losses. This model does not apply to equity instruments and envisages operational simplifications for trade receivables;
  Hedge accounting based on a more flexible approach compared to that contained in IAS 39.
  The Group has reviewed the financial assets and liabilities and largely completed the evaluation of the effects arising from application of the new accounting standard. No significant impact is expected on the net result and on equity at the date of first adoption (1 January 2018).
  This standard, which has been endorsed by the European Union, applies as from 1 January 2018.

- IFRS 15 – Revenue from contracts with customers and clarifications to IFRS 15 – The new IFRS 15 defines the criteria for recognising and measuring revenue from contracts with customers.
  In particular, IFRS 15 envisages that the recognition of revenue is based on the following 5 steps: (i) identifying the contract with the customer; (ii) identifying performance obligations (i.e., contractual promises to transfer goods and/or services to a customer); (iii) determining the transaction price; (iv) allocating the transaction price to the performance obligations identified on the basis of the stand-alone sale price of each good or service; and (v) revenue recognition when the related performance obligation is met.
  In addition, IFRS 15 supplements the financial statement disclosure to be provided with reference to the nature, amount, timing and uncertainty of revenue and the related cash flows.
  This standard, which has been endorsed by European Union, applies as from 1 January 2018. The Group has largely completed the evaluation of the effects arising from application of the new accounting standard and no significant impact is expected on the net result and on equity (1 January 2018).

- Amendments to IFRS 2 – Share-based payments – The purpose of these amendments is to clarify the accounting treatment of some types of share-based payments.
  These amendments, applicable as from 1 January 2018, have still not been endorsed by the European Union.

- Amendments to IFRS 4 – Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts. These changes regulate the implementation of the new standard on financial instruments IFRS 9, before that of IFRS 4, to which the IASB is making further amendments.

- IFRS 16 – Leases – The new standard on leases, which will replace the current IAS 17, provides a single lessee accounting model requiring to recognise assets and liabilities for all leases. The concept of operating lease disappears.
  The lessee must recognise the leased asset under tangible assets and at the same time recognise financial liabilities equal to the current value of future payments. The only exceptions allowed are short-term leases (for no more than 12 months) and leases of small assets (e.g., office furniture, computers) for which the accounting treatment remains similar to that currently adopted for operating leases. If a lease includes a service, the latter cannot be capitalised.
  This standard, which has been endorsed by the European Union, applies as from 1 January 2019.

- IFRIC 22 – Foreign currency transactions and advance consideration – The purpose of this interpretation is determining the exchange rate to be used in translating advance considerations to be received or paid in a foreign currency. In case of receipt or payment of advance considerations, the exchange rate to be used to convert assets, liabilities, revenue or costs recognised subsequently is the same as that used to translate the advance consideration. This interpretation, applicable as from 1 January 2018, has still not been endorsed by the European Union.

- Amendments to IAS 40 – Transfers of investment property – These amendments further clarify the situations in which it is possible to transfer an asset to or from investment properties.
  These amendments, applicable as from 1 January 2018, have still not been endorsed by the European Union.

- IFRIC 23 – Uncertainty over income tax treatments – This interpretation clarifies the criteria to be applied for recognition and measurement of current and deferred/prepaid taxes when there is uncertainty over the tax treatment, i.e. when there is no certainty that a particular treatment will be accepted by the taxation authorities (e.g., deducibility of some costs or exemption of some income), but also uncertainty about the determination of taxable income, the tax base of assets and liabilities, tax losses and the rates to be applied.
  The accounting treatment depends on the likelihood that the taxation authorities accept or reject the tax treatment. Should there be a low probability, the uncertainty is recorded by recognising an additional tax liability or by applying a higher tax rate.
  This interpretation, applicable as from 1 January 2019, has still not been endorsed by the European Union.

- Amendments to IFRS 9 – Financial instruments: prepayment features with negative compensation and modifications of financial liabilities
  These amendments regard the following issues:

  - financial assets (financial receivables and debt securities) which, given particular characteristics, may be measured at amortised cost, while previously they had to be measured at fair value through other comprehensive income;
  - accounting for modifications of financial liabilities which do not result in the derecognition of the financial liability: in these situations, a gain or loss must be recognised through other comprehensive income. It is calculated as the difference between the contractual cash flows of the original liability and the modified cash flows, both discounted at the original effective interest rate.

  These amendments, effective as from 1 January 2019, have still not been endorsed by the European Union

- Amendments to IAS 28 - Long-term interests in associates and joint ventures: These amendments clarified that, should the interests in associates and joint ventures not be accounted for using the equity method (IAS 28), they must be measured in accordance with the provisions of IFRS 9. These amendments, effective as from 1 January 2019, have still not been endorsed by the European Union.

- Improvements to IFRS 2015-2017 Cycle (issued by the IASB in December 2017)
  The IASB issued a series of amendments to 4 standards in force, which regard, in particular, the following aspects:

  - IFRS 3 – Business combinations: when an entity obtains control of a business that is a joint operation, it recognises it as a business combination achieved in stages and remeasures at fair value previously held interests at the acquisition date.
  - IFRS 11 – Joint arrangements: when an entity obtains joint control over a business that is a joint operation, the entity does not remeasure at fair value previously held interests.
  - IAS 12 – Income taxes: the accounting for the tax consequences of dividends on financial instruments classified as equity must be the same as that for the transactions or events that generated distributable income.
  - IAS 23 – Borrowing costs: if any specific borrowing relating to a qualifying asset remains outstanding after the related asset is ready for use or sale, it becomes part of general borrowings. These amendments, applicable as from 1 January 2019, have still not been endorsed by the European Union.

Information on the Income Statement

Revenue

The transport of methane gas takes place exclusively within Italy.

5.a Revenue from sales and services – 600,313 thousand euro

"Revenue from sales and services" mainly refers to the gas transport activity and the connection fees.

Here is the breakdown of "Revenue from sales and services":

Thousands of euro	31.12.2017	31.12.2016	2017- 2016
Sales and service			
Third parties:			
Transport of gas and LPG	564,071	560,744	3,327
Allocation to provision for risks	(1,767)	(2,666)	899
Connection fees	8,882	13,477	(4,595)
Accessory rights	5,831	6,068	(237)
Revenue from the sale of water	1,188	1,818	(630)
Accessory services – water sector	296	240	56
Revenue from customer operations	247	44	203
Revenue from sewerage/purification	226	749	(523)
Other revenue and other sales and services	21,339	18,181	3,159
Total revenue from sales and services	**600,313**	**598,654**	**1,659**

Revenue from gas transport totalled 564,071 thousand euro and mainly refers to the 2017 tariff revenue cap (VRT) for natural gas and LPG, together with revenue from adjustments relating to previous years.
This figure was calculated on the basis of ARERA Resolution 367/2014/R/gas which is valid for the fourth regulatory period up to 2019.
Net of the effect of the further allocation to the provision for risks regarding a possible tariff review of some concessions where there are plants partly owned by third parties, the item in question rose by 4,226 thousand euro in the year, with a positive difference of 3,327 thousand euro, caused exclusively by the increase in the Tariff Revenue Cap.

Connection fees, which totalled 8,882 thousand euro, fell by 4,595 thousand euro compared to the prior year due to a review of the measurement method adopted in the year in order to better illustrate the correlation between fees and assets.

The connection fee is indeed an amount defined through a specific quotation according to the type of service requested and consists of:

- the cost of the material required;
- labour costs;
- the percentage amount for the coverage of overheads.

Unlike the previous year, in order to ensure a better representation of the correlation between the invoiced fee and the asset to which it refers, since 2017, it has been agreed not to separate the share of the fee which was calculated to cover overhead costs, but to proceed to the total allocation of the fee to capitalised costs, thus deferring the whole sum on the basis of the length of the amortisation of the asset.

Revenue from the sale of water decreased by 894 thousand euro overall, following the strategy of gradual disposal of the water concessions managed by the Company.

“Sundry revenue and other sales and services” included revenue associated with the suspension and reactivation of customers in arrears at the request of the sales companies, which totalled around 6,428 thousand euro, as well as 9,706 thousand euro in revenue relating to the TCol tariff component, compared to 9,984 thousand euro in the previous year. Revenue from readings rose by 4,163 thousand euro owing to Resolution 102/2016/R/com and the related revenue recognised to distributors for the reading of meters during the transfer phase.

5.b Other revenue – 190,395 thousand euro

“Other revenue” rose by 65,647 thousand euro and was as follows:

Thousands of euro	31.12.2017	31.12.2016	2017 - 2016
Other revenue			
Third parties:			
Revenue from energy efficiency certificates	161,447	90,802	70,645
Revenue from plant contributions	2,264	2,260	5
Contingent assets	1,683	833	850
Revenue from Resolution 574/13	14,066	15,214	(1,148)
Rental income	695	2,172	(1,477)
Capital gains from assets	1,305	5,405	(4,100)
Compensation for damages	102	889	(787)
Other revenue and income and services	8,833	7,174	1,660
Total other revenue	**190,395**	**124,748**	**65,647**

The increase in the item was essentially attributable to higher revenue, 70,645 thousand euro, from the sale of energy efficiency certificates as a result of the trend in market purchase prices, which determines the value the electric market operator (GME) assigns to the certificates.

Specifically, this item refers to the achievement of the 2016 target and the partial achievement of the specific energy saving target for 2017. In relation to the 2017 target, it is necessary to have cancelled at least 60% of the certificates requested by May 2018.
In this regard, the 2i Rete Gas Group, at the reporting date, believes that there will be no problems in achieving the targets in compliance with relevant laws and regulations.
The steady increase in revenue from energy efficiency certificates was the result of the Company's efforts to reach the targets ahead of the May 2018 deadline, as well as, and most importantly, the rising market prices, which significantly affected purchases in the second half of the year.
This item must be read also in light of the costs the Company incurred to buy energy efficiency certificates, which appears in the financial statements under "Other costs".

As in previous years, revenue as per Resolution 574/2013/R/gas concerning the quality of gas distribution and metering services testifies to the Company's focus on the technical quality of its services. The result depends on both the number of gas chromatography tests undertaken by the distributor (a parameter which the Company can control) and on the fall in leaks at the distributor's plant (a parameter which cannot be governed directly by the distributor except through continuous monitoring).

Capital gains from assets, which last year included a significant amount relating to the settlement of the dispute over the so-called “Lariano Triangle” and the end of two concession arrangements (Caronno Varesino and Paderno Dugnano), fell by 4,100 thousand euro due to the lower level of disposals, which in the year regarded solely some minor water concessions.

“Other revenue and income and services” were up 1,660 thousand euro largely because of the increase in revenue from operations with defaulting end customers, whose administrative management was delegated to the gas distributor.

5.c Revenue from intangible assets/assets under construction – 238,065 thousand euro

Thousands of euro	31.12.2017	31.12.2016	2017 - 2016
Revenue from intangible assets/assets under construction			
Revenue from intangible assets/assets under construction	238,065	207,061	31,004
Total revenue from intangible assets/assets under construction	**238,065**	**207,061**	**31,004**

As from 1 January 2010, the Group has been recognising this revenue pursuant to IFRIC 12 “Service Concession Arrangements”.

Revenue from intangible assets and assets under construction represents the proportion of revenue directly attributable to the construction and enhancement of gas distribution networks held under concession. Since it is not possible to identify a specific item relating to the network construction service in the existing tariff system, this revenue is recognised to the extent of the costs incurred for the same purpose, and therefore has no impact on gross margin.

Costs

As already noted, all costs recognised under the accounting model as per IFRIC 12 are broken down by nature within the pre-existing cost items.
The following table provides a summary of the items relating to the Company’s operating costs in order to ensure their compliance with the aforementioned standard.

Thousands of euro

	31.12.2017	31.12.2016	2017 - 2016
Costs relating to revenue from intangible assets / assets under construction			
Raw materials and consumables	5,003	4,549	454
Costs for services	110,180	82,089	28,091
Other operating costs	815	590	224
Capitalised costs for materials, personnel and services	122,067	119,832	2,235
Total costs relating to revenue from intangible assets / assets under construction	**238,065**	**207,061**	**31,004**

6.a Raw materials and consumables – 79,026 thousand euro

"Costs of raw materials and consumables" and the changes thereto compared to the previous year are detailed below:

Thousands of euro

	31.12.2017	31.12.2016	2017 - 2016
Raw materials and consumables			
Third parties:			
Costs for the purchase of gas, water and lubricants	2,784	2,877	(93)
Stationery and printed materials	193	264	(70)
Other materials	74,764	86,890	(12,126)
(Change in inventories of raw materials)	1,285	(6,483)	7,768
Total cost for raw materials and consumables	**79,026**	**83,547**	**(4,521)**
- of which capitalised for intangible assets	73,497	76,843	(3,346)
- of which capitalised	1,097	234	864

"Costs of raw materials and consumables" essentially comprise the cost for the purchase of the materials, fuel and lubricants used in the process of laying the pipes; compared to the previous year, these costs decreased by 4,521 thousand euro overall.

Compared to the previous year, there was a fall of 12,126 thousand euro in "various materials", which was partially offset by the change in inventories in the year, arising from the trend in the installation of smart meters.

6.b Services – 239,096 thousand euro

"Costs for services" are broken down as follows:

Thousands of euro	31.12.2017	31.12.2016	2017 - 2016
Costs for services			
Third parties:			
Maintenance, repair and realisation of assets	103,768	78,277	25,491
Costs for electricity, power and water	3,202	3,278	(76)
Gas (for internal use)	3,339	3,333	6
Telephone and data transmission costs	2,193	2,835	(642)
Insurance premiums	4,241	4,852	(612)
Costs for services and other expenses relating to personnel	4,260	4,863	(602)
Fees	744	882	(138)
Legal and notary costs	2,219	2,285	(66)
Costs for company acquisitions and disposals	115	11	104
Staff and other services	-	5	(5)
Advertising	111	64	47
IT services	7,113	6,563	550
Meter reading service	6,477	5,236	1,241
Audit fees	552	407	144
Repairs and emergency service	4,913	4,866	46
Plant certifications - Resolution 40	604	630	(26)
Gas transport by third parties	3,554	2,478	1,076
Professional and other services	7,789	4,661	3,127
Other costs for services	7,878	6,824	1,054
Costs for the use of third-party assets			
Leases	4,976	5,547	(571)
Rentals	6,463	6,797	(334)
Other costs for the use of third-party assets	1,781	1,862	(82)
Fee for temporary occupation of public space (C.o.s.a.p.)	1,246	1,268	(22)
Municipal gas concession fees	61,559	59,794	1,764
Total	**239,096**	**207,619**	**31,477**
- of which capitalised for intangible assets	110,180	82,089	28,091

The aggregate figure of costs for services (also including costs for the use of third-party assets) is up compared to the previous year.

The most significant changes from last year concerned the following:

- 25,491 thousand euro rise in the costs for maintenance, repair and realisation of assets as a result of the increased activity on the networks, entering into a higher number of contracts with external companies;
- 711 thousand euro decline in the costs for utilities (electricity, water, gas, phone), especially following the improvement in the financial terms of phone contracts;
- 550 thousand euro slight increase in costs for IT services also owing to the increasing use in the field of digital instruments for;
- the meter reading service rose in 2017 too, with a further increase of around 1,241 thousand euro compared to the previous year;
- professional consulting services were impacted by the activities undertaken in the year and preliminary to the liability management exercise and to the acquisition completed in 2018;
- as for costs for the use of third-party assets, rentals, leases and hire charges fell overall by 987 thousand euro thanks to more careful management of premises and vehicles leased, while concession fees rose by 1,764 thousand euro mainly owing to the concession fee for Como, which, in 2017, was held for the whole year.

In the year, the capitalisation of this item rose by 28,091 thousand euro thanks to the increased work on networks and meters.

6.C Personnel costs – 110,257 thousand euro

Personnel costs are broken down as follows:

Thousands of euro	31.12.2017	31.12.2016	2017 - 2016
Wages and salaries	81,942	82,750	(808)
Social security charges	24,359	25,829	(1,470)
Termination benefits	5,415	5,492	(77)
Asem/Fisde	1	5	(4)
Other personnel costs	(1,460)	539	(2,000)
Total personnel costs	**110,257**	**114,615**	**(4,358)**
Non-recurring personnel costs			
Incentives lo leave	-	3,688	(3,688)
Total non-recurring personnel costs	**-**	**3,688**	**(3,688)**
Total personnel costs	**110,257**	**118,303**	**(8,046)**
- of which capitalised for intangible assets	**53,573**	**47,538**	**6,035**
- of which capitalised for internal work	**2**	**-**	**2**

"Personnel costs" include all expenses incurred on an ongoing basis that, directly or indirectly, involve employees. They were down by 8,046 thousand euro; this fall was mainly due to the presence, in the previous year, of the allocation for incentives to leave, which did

not occur in 2017, while, from the viewpoint of recurring personnel costs, the reduction in staff in 2017 led to a saving on all the items making up the balance.
In addition, it should be noted the rise in the capitalisation of personnel costs thanks also to the campaign to install smart meters and replace the obsolete network (53,573 thousand euro capitalised vs. 47,538 thousand euro last year).

The table below shows employee changes in the year by category.

	Executives	Middle Managers	Office Employees	Manual Workers	Total
Personnel at 31 December 2016	**30**	**112**	**1,140**	**701**	**1,983**
Increase	-	2	15	-	17
Decrease	(4)	(7)	(40)	(20)	(71)
Change in category	4	(3)	(2)	1	-
Personnel at 31 December 2017	**30**	**104**	**1,113**	**682**	**1,929**

In 2017, there was a greater decrease than in the previous year, divided in almost equal measure between personnel retiring on grounds of age also through use of the provision for incentives to leave and voluntary redundancy. Offsetting these departures, 17 new resources were hired during the year.

6.d Amortisation, depreciation and impairment losses – 161,203 thousand euro

Depreciation, amortisation and impairment losses amounted to 161,203 thousand euro, up by 5,283 thousand euro compared to the previous year.
This change was due to the 4,394 thousand euro increase in amortisation and depreciation as well as the 890 thousand euro rise in impairment losses.
With the introduction of IFRIC 12, amortisation mainly concerns the rights over concessions in which the Group manages the gas distribution networks.
Impairment losses, totalling 2,900 thousand euro, included 132 thousand euro arising from the remeasurement of some fixed assets and 2,767 thousand euro from the write-down of trade receivables.

This item is broken down as follows:

Thousands of euro

	31.12.2017	31.12.2016	2017 - 2016
Depreciation	4,922	5,007	(86)
Amortisation	153,382	148,903	4,479
Impairment losses:			
- Impairment of tangible assets	76	210	(134)
- Impairment of intangible assets	56	47	10
- Write-down of trade receivables	2,767	1,754	1,014
	161,203	**155,920**	**5,283**

6.e Other operating costs – 193,201 thousand euro

"Other operating costs" increased by 71,531 thousand euro compared to last year and are broken down as follows:

Thousands of euro

	31.12.2017	31.12.2016	2017 - 2016
Other operating costs			
Third parties:			
Remuneration of statutory auditors, the Supervisory Body and Committees	116	114	2
Remuneration of members of the Board of Directors	335	364	(29)
Association fees	432	413	19
Contribution to the Supervisory Authority	197	163	34
Compensation to customers	254	184	69
Municipal tax on property	450	465	(15)
CCIAA (chamber of commerce) fees and duties	506	460	46
Purchase of energy efficiency certificates	162,075	89,880	72,195
Tax on the occupation of public space (Tosap)	1,850	1,588	262
Capital losses on the disposal of assets	20,486	16,023	4,463
Capital losses on the sale of assets	-	584	(584)
Local and sundry taxes	991	1,022	(32)
Other costs	951	1,411	(460)
(Net) provision for risks and charges	4,558	8,997	(4,439)
Total other operating costs	**193,201**	**121,670**	**71,531**
- of which capitalised for intangible assets	815	590	224

The increase in other operating costs mainly depends on:

- 72,195 thousand euro increase in the costs for the purchase of energy efficiency certificates for the 2016 and 2017 target, mainly because prices rose during 2017;

- 4,463 thousand euro rise in capital losses from the disposal of assets of, mainly due to the work to replace conventional meters with smart ones as well as the obsolete network; there were no capital losses from the sale of assets during the year;
- 4,439 thousand euro decrease in charges for provisions for risks. The net fall in the year was due to the release of some provisions from previous years following the settlement of disputes. In 2017, the following disputes were settled and so the corresponding provision was released: the dispute on the purchase price of the investment in Genia Distribuzione S.p.A. and that relating to the water purification plant with the Syrian Ministry of Housing. The breakdown of the relevant provisions is shown in the comments on liabilities.

6.f Capitalised costs for internal work – (1,099) thousand euro

Following the introduction of IFRIC 12, the costs directly related to construction work on the network under concession are no longer accounted for as capitalised costs for internal work. For this reason, the item now only includes those residual costs which can be capitalised but do not concern concessions. In the specific case, the value mainly refers to capitalisation of concentrators, equipment for the communication network of the new smart meters which are not part of the assets linked to concessions.

Thousands of euro

	31.12.2017	31.12.2016	2017 - 2016
Internal services	(2)	-	(2)
Other capitalised costs	(0)	-	(0)
Materials	(1,097)	(234)	(864)
Total capitalised costs for internal work	**(1,099)**	**(234)**	**(866)**

7. Income/(Expenses) from equity investments – 87 thousand euro

The item in question includes the income from dividends approved by associates and other investees.

8. Financial income/(expenses) – (73,086) thousand euro

This item is broken down as follows:

Thousands of euro	31.12.2017	31.12.2016	2017-2016
Financial income			
- Interest income from loans to employees	1	1	-
- Interest income from current accounts and post office deposits	55	130	(74)
- Interest income from receivables from customers	83	45	37
- Other financial interest and income	630	38	592
Total income	**769**	**214**	**555**
Financial expenses			
- Interest expense on medium-/long-term loans	4,055	983	3,071
- Other expense on medium-/long-term loans from banks	520	1,164	(644)
- Financial expenses on debenture loans	62,782	37,304	25,477
- Financial expenses from amortised cost	5,493	7,208	(1,715)
- Interest expense on short-term bank loans	8	-	8
- Interest expense on current bank accounts	1	-	1
- Discounting of post-employment and other employee benefits	915	958	(42)
- Expense for discounting of payables	-	129	(129)
- Interests on taxes	2	1	1
- Other financial and interest expense	79	62	17
Total expenses	**73,855**	**47,810**	**26,045**
TOTAL FINANCIAL INCOME AND (EXPENSES)	**(73,086)**	**(47,596)**	**(25,489)**

Net financial expenses of 73,086 thousand euro were mainly due to the recognition in the year of the interests relating to the debenture loans and the related amortised cost.
At 31 December 2017, the Group had 2,819,893 thousand euro in loans outstanding, including 2,394,893 thousand euro in the five instalments of the debenture loan issued between 2014 and 2017, as well as 425,000 thousand euro in three loans from the European Investment Bank.
Since 2014, the structure of the Group's debt has almost entirely moved to a fixed rate thanks to the debenture loan, lengthening the average duration of the existing debt and reducing the cost of the debt itself at the same time.
In 2017, the Group completed an important liability management exercise which enabled it, through three subsequent issues, to buy back part of the short-term debenture loan and refinance it with longer expiries, benefiting, among other things, from an extremely limited cost of debt and actually hedging against the risk of a potential interest rate hike.
The Group also entered into 5 forward starting swaps in order to set in advance the price of the probable new issue of a debenture loan which shall replace the tranches which currently expire in 2019 and 2020. These contracts do not currently impact financial expenses because they are classified as hedging instruments.

9. Taxes – (52,466) thousand euro

This item is broken down as follows:

Thousands of euro

	31.12.2017	31.12.2016	2017 - 2016
Current taxes			
Current income taxes: IRES	47,217	58,151	(10,933)
Current income taxes: IRAP	11,629	11,719	(90)
Total current taxes	**58,846**	**69,869**	**(11,024)**
Adjustments for income taxes relating to previous years			
Negative adjustments for income taxes relating to previous years	62	177	(114)
Positive adjustments for income taxes relating to previous years	(30)	(211)	181
Total adjustments for income taxes relating to previous years	**32**	**(34)**	**66**
Deferred and prepaid taxes			
Deferred taxes (use)/allocation	(2,138)	(3,183)	1,045
Prepaid taxes (allocation) / use	(4,273)	(1,062)	(3,211)
Total current deferred and prepaid taxes	*(6,412)*	*(4,245)*	*(2,167)*
Adjustments to deferred taxes of previous years due to tax rate change	-	(531)	531
Adjustments to prepaid taxes of previous years due to tax rate change	-	1,688	(1,688)
Total adjusted deferred and prepaid taxes	-	*1,156*	*(1,156)*
Total deferred and prepaid taxes	**(6,412)**	**(3,089)**	**(3,323)**
TOTAL TAXES	**52,466**	**66,747**	**(14,280)**

The Group's income taxes for 2017 totalled 52,466 thousand euro, down 14,280 thousand euro year-on-year.
Specifically, taxes represent the recognition of the charge for current taxes for the year, including IRES of 47,217 thousand euro and IRAP of 11,629 thousand euro.
Deferred and prepaid taxes followed the normal course of the business.
For more in-depth notes on this item, reference should be made to the relevant section of the notes to the Statement of financial position.

The net adjustments to income taxes relating to previous years are positive in this year for 32 thousand euro; these adjustments arose following the definitive calculation of taxes during the payment in June 2017.

The tax impact of IRES for 2017 is equal to 27.1%.

The following table shows the reconciliation of the effective and theoretical tax rates, determined by applying the tax rate in force during the year to pre-tax profit, without taking into account the adjustments from previous years:

Thousands of euro	31.12.2017	31.12.2016
Pre-tax income	174,091	196,211
Theoretical IRES taxes	**41,815**	**54,021**
Lower taxes:		
- capital gains from exempt equity investments	-	-
- write-downs in previous years	-	-
- release of contributions taxed in prior years	1,920	1,428
- use of provisions	4,924	2,978
- release of provisions	980	1,213
- reversal of statutory amortisation/depreciation not deducted in prior years	3,493	4,269
- deducted tax amortisation	1,034	630
- deductible interest expense in prior years	-	4,410
- capital gains by instalments	17	1,289
- other	2,808	4,063
Higher taxes:		
- write-downs for the year	-	21.60
- allocation to provisions	7,079	8,059
- amortisation/depreciation on amounts that are not recognised for tax purposes	2,338	2,820
- statutory amortisation/depreciation exceeding the fiscal limits	8,957	10,311
- reversal of excess tax amortisation deducted in prior years	820	1,003
- capital losses on the disposal/sale of assets	-	51
- capital gains by instalments	222	870
- partially deductible costs	413	550
- connection fees	27	38
- taxes and duties	108	137
- other	615	549
Total current income taxes (IRES)	**47,217**	**58,150**
IRAP	**11,629**	**11,719**
Total deferred and prepaid taxes	**(6,412)**	**(3,089)**
TOTAL INCOME TAXES	**52,434**	**66,781**

10. Discontinued operations – 0 thousand euro

The result from discontinued operations was zero, as in the previous year.

Information on the Statement of Financial Position

Assets

Non-current assets

11. Property, plant and equipment – 37,458 thousand euro

Following the introduction of IFRIC 12, property, plant and equipment include only those assets that are not related to gas distribution concessions. Such assets are now recognised as intangible.
The breakdown and changes in property, plant and equipment in 2016 and 2017 are shown below:

Thousands of euro	Land	Buildings	Plant and equipment	Industrial and commercial equipment	Other assets	Improvements to third-party assets	Fixed assets under construction and advances	Total
Historical cost	14,683	36,009	4,168	22,152	47,800	13,139	1,212	**139,163**
Accumulated depreciation	-	(25,527)	(1,846)	(20,132)	(40,425)	(8,678)	-	**(96,608)**
Balance at 31.12.2015	**14,683**	**10,481**	**2,322**	**2,020**	**7,375**	**4,462**	**1,212**	**42,555**
Investments	-	65	1,191	329	1,918	146	36	**3,686**
Entry into service	-	1,106	-	-	-	109	(1,216)	**-**
Gross value	-	1,106	-	-	-	109	(1,216)	**-**
Acc. Depr.	-	-	-	-	-	-	-	**-**
Disposals	(846)	(608)	-	-	(16)	-	-	**(1,470)**
Gross value	(846)	(2,304)	-	(107)	(714)	-	-	**(3,972)**
Acc. Depr.	-	1,697	-	107	698	-	-	**2,502**
Reclassifications	(10)	(76)	(1,687)	-	-	-	-	**(1,774)**
Gross value	(10)	(90)	(1,988)	-	-	-	-	**(2,088)**
Acc. Depr.	-	14	301	-	-	-	-	**314**
Impairment losses	(210)	-	-	-	-	-	-	**(210)**
Gross value	(210)	-	-	-	-	-	-	**(210)**
Acc. Depr.	-	-	-	-	-	-	-	**-**
Depreciation	-	(1,034)	(89)	(690)	(2,144)	(1,051)	-	**(5,007)**
Total changes	**(1,066)**	**(546)**	**(585)**	**(361)**	**(242)**	**(795)**	**(1,180)**	**(4,775)**
Historical cost	13,617	34,786	3,371	22,375	49,004	13,395	32	**136,579**
Accumulated depreciation	-	(24,851)	(1,634)	(20,716)	(41,870)	(9,728)	-	**(98,799)**
Balance at 31.12.2016	**13,617**	**9,935**	**1,737**	**1,659**	**7,134**	**3,666**	**32**	**37,780**
Investments	-	258	3,467	656	1,228	108	10	**5,727**
Entry into service	-	18	-	-	-	2	(20)	**-**
Gross value	-	18	-	-	-	2	(20)	**-**
Acc. Depr.	-	-	-	-	-	-	-	**-**
Disposals	(766)	(227)	-	(18)	-	-	-	**(1,011)**
Gross value	(766)	(1,458)	-	(347)	(1,227)	-	-	**(3,798)**
Acc. Depr.	-	1,231	-	330	1,227	-	-	**2,788**
Reclassifications	(40)	16	-	-	-	-	(16)	**(40)**
Gross value	(40)	16	-	-	-	-	(16)	**(40)**
Acc. Depr.	-	-	-	-	-	-	-	**-**
Impairment losses	(62)	(10)	-	-	-	-	(4)	**(76)**
Gross value	(62)	(50)	-	-	-	-	(4)	**(116)**
Acc. Depr.	-	39	-	-	-	-	-	**39**
Depreciation	-	(879)	(236)	(501)	(2,285)	(1,020)	-	**(4,922)**
Total changes	**(868)**	**(824)**	**3,231**	**137**	**(1,058)**	**(910)**	**(30)**	**(322)**
Historical cost	12,750	33,570	6,838	22,684	49,004	13,505	2	**138,352**
Accumulated depreciation	-	(24,459)	(1,870)	(20,888)	(42,928)	(10,748)	-	**(100,894)**
Balance at 31.12.2017	**12,750**	**9,111**	**4,968**	**1,796**	**6,076**	**2,756**	**2**	**37,458**

At 31 December 2017, the item decreased compared by 322 thousand euro to 31 December 2016; this decline was due to the net balance of investments for 5,727 thousand euro, disposals and impairment losses for 1,087 thousand euro, reclassifications for 40 thousand euro, and depreciation for 4,922 thousand euro.

The investment made in property, plant and equipment is broken down as follows:

Thousands of euro	31.12.2017	31.12.2016
Increases for internal services	1	-
Increases for materials	1,097	234
Increases for external acquisitions/services	4,628	3,452
Total	**5,727**	**3,686**

As part of the increases for acquisitions, in the year, Other Assets showed a 795 thousand euro increase in costs incurred for the purchase of servers and personal computers, as well as 210 thousand euro due to the purchase of IT security equipment.
The increase in plant and equipment, on the other hand, was due to the installation of concentrators, data reception and transmission equipment which is part of the smart meter communication network and excluded from the scope of application of IFRIC 12 since it is not recognised as a service concession asset.

12. Intangible assets – 2,937,360 thousand euro

Following the introduction of IFRIC 12, intangible assets include also those fixed assets related to gas distribution concessions.
The breakdown and changes in intangible assets in 2016 and 2017 are shown below:

Thousands of euro	Patent and intellectual property rights	Concessions and similar rights	Concessions and similar rights - Fixed assets under construction and advances	Fixed assets under construction and advances	Other intangible assets	Goodwill	Total
Historical cost	87,994	5,185,599	9,900	2,795	87,735	142,974	5,516,998
Accumulated amortisation	(77,690)	(2,590,660)	-	-	(52,069)		(2,720,420)
Balance at 31.12.2015	**10,304**	**2,594,939**	**9,900**	**2,795**	**35,666**	**142,974**	**2,796,578**
Investments	622	208,735	8,917	3,471	8,610	-	230,355
Entry into service	-	7,533	(7,533)	(2,553)	2,553	-	-
Gross value	-	7,533	(7,533)	(2,553)	2,553	-	-
Acc. Amort.	-	-	-	-	-	-	-
Disposals	-	(17,019)	(1)	-	-	-	(17,020)
Gross value	-	(54,023)	(1)	-	(118)	-	(54,142)
Acc. Amort.	-	37,004	-	-	118	-	37,123
Reclassifications	-	1,774	-	-	-	-	1,774
Gross value	-	2,088	-	-	-	-	2,088
Acc. Amort.	-	(314)	-	-	-	-	(314)
Impairment losses	-	(1)	(45)	-	-	-	(47)
Gross value	-	(3)	(45)	-	-	-	(48)
Acc. Amort.	-	2	-	-	-	-	2
Amortisation	(5,481)	(133,252)	-	-	(10,170)	-	(148,903)
Total changes	**(4,859)**	**67,770**	**1,337**	**918**	**993**	**-**	**66,159**
Historical cost	88,616	5,349,930	11,238	3,713	98,780	142,974	5,695,251
Accumulated amortisation	(83,171)	(2,687,221)	-	-	(62,121)	-	(2,832,513)
Balance at 31.12.2016	**5,445**	**2,662,709**	**11,238**	**3,713**	**36,658**	**142,974**	**2,862,738**
Investments	3,027	227,451	10,668	3,054	8,581	-	252,782
Entry into service	-	7,498	(7,281)	(3,451)	3,234	-	-
Gross value	-	7,498	(7,281)	(3,451)	3,234	-	-
Acc. Amort.	-	-	-	-	-	-	-
Disposals	-	(23,248)	(47)	-	-	-	(23,295)
Gross value	-	(69,578)	(47)	-	-	-	(69,626)
Acc. Amort.	-	46,331	-	-	-	-	46,331
Reclassifications	-	40	-	-	-	-	40
Gross value	-	40	-	-	-	-	40
Acc. Amort.	-	-	-	-	-	-	-
Impairment losses	-	(1)	(18)	(38)	-	-	(56)
Gross value	-	(1)	(18)	(38)	-	-	(56)
Acc. Amort.	-	0	-	-	-	-	0
Fixed assets classified as assets held for sale	-	(1,373)	(94)	-	-	-	(1,467)
Gross value	-	(5,083)	(94)	-	-	-	(5,176)
Acc. Amort.	-	3,710	-	-	-	-	3,710
Amortisation	(3,910)	(137,232)	-	-	(12,240)	-	(153,382)
Total changes	**(883)**	**73,136**	**3,229**	**(434)**	**(425)**	**-**	**74,623**
Historical cost	91,644	5,510,257	14,467	3,278	110,595	142,974	5,873,215
Accumulated amortisation	(87,081)	(2,774,412)	-	-	(74,362)	-	(2,935,855)
Balance at 31.12.2017	**4,563**	**2,735,845**	**14,467**	**3,278**	**36,233**	**142,974**	**2,937,360**

Intangible assets increased by 74,623 thousand euro compared to 31 December 2016; this increase is due to the net balance of new investments of 252,782 thousand euro, decreases totalling 23,295 thousand euro, reclassifications of 1,427 thousand euro (of which 1,467 thousand euro relating to the classification of assets pertaining to the Villasanta business unit and the Moscufo concession) and amortisation and impairment losses of 153,382 thousand euro.

The net 883 thousand euro decrease in “Patent and intellectual property rights” was the result of 3,027 thousand euro investments and 3,910 thousand euro amortisation charges. The increases in the year mainly concern some software licences the Group bought, including licences for various software programmes to combat cybercrime for 831 thousand euro.

The item "Concessions and similar rights" totalled 2,662,709 thousand euro in 2016 and 2,735,845 euro in 2017. The item refers to the recognition of the Group's rights over fixed assets as concession operator and gas distribution service provider, as well as one-off fees for the acquisition of natural gas distribution concessions.

The amortisation of concession charges has been determined on a straight-line basis and on the basis of the estimated realisable value at the end of the concession.
The Group determined the terms of the concessions using the same criteria adopted in the previous year.

For concessions which have expired at the reporting date, and therefore are operating in an extension regime (*prorogatio*), the residual value has been restated to take into consideration the postponement of the effective expiry of these concessions.

It should be recalled in particular that, pursuant to the Italian Ministry of Economic Development’s Decree of 19 January 2011 “Identification of local areas in the natural gas distribution sector” which came into force on 1 April 2011, according to art. 3, paragraph 3 of said Decree, “as from the coming into force of this provision, the tenders for the assignment of the gas distribution service, as provided for by art. 14, paragraph 1, of Italian Legislative Decree No. 164 of 23 May 2000, for which the call for tender has not been published or for which the deadline for submitting offers has not expired, are awarded solely for the local areas established in Annex 1 forming an integral part of this provision” and that, in compliance with art. 14, paragraph 7 of Italian Legislative Decree No. 164/2000, “the outgoing operator, pursuant to art. 14, paragraph 7, of Italian Legislative Decree No. 164 of 23 May 2000, in any case remains under obligation to continue managing the service until the start date of the new assignment”.
“Concessions and similar rights”, totalling 14,467 thousand euro, included investments related to the concessions and not yet completed.
“Fixed assets under construction and advances”, totalling 3,278 thousand euro, mainly consisted of investments in software which is being developed to guarantee better and more precise management of the Company.
During the year, 3,451 thousand euro in fixed assets under construction were completed.

"Other intangible assets" of 36,233 thousand euro include other long-term costs, such as costs linked to the implementation of the remote reading system for smart meters.

"Goodwill" is equal to 142,974 thousand euro and is related to the deficit from the consolidation and merger of companies which had previously been subsidiaries. This item was recognised in agreement with the Board of Statutory Auditors.

The estimate of the recoverable value of goodwill recognised in the financial statements is based on the Discounted Cash Flow model that uses estimates of future cash flows, applying an appropriate discount rate, to measure an asset's value in use.
For the purposes of this estimate, the whole Group is considered as a Cash Generating Unit, consistently with the corporate vision.
In detail, cash flows are considered for a forecast period of 5 years, consistent with the 2i Rete Gas Group plan described by the Board of Directors on 12 January 2018 and drafted on the going concern assumption, plus the terminal value calculated with the perpetual income algorithm.

In this framework, the two main assumptions are:

- continuity in concession management, since the redefinition of the relevant local areas resulting from the territorial tenders will be a concrete opportunity for the Group to expand its business on the competitive market given its economic capacity, available credit lines, and top position in a market that is experiencing concentration;
- the continuous management of end customers, with the assumption of a further organic growth only on the already existing networks at a rate compatible with the experience on the market in recent years.

The discount rates applied, the forecast period over which projected cash flows are discounted, and the Group terminal value growth rate are detailed in the table below.

Tax Rate	WACC (1)	Cash flow forecast period	"TV (g) growth rate "
28.6% (2)	3.6%	2018 - 2022	0%

(1) Post-tax WACC is aligned to the average cost of financing of the best-performing peers in the sector
(2) IRAP + IRES rate

The value in use, determined in accordance with the aforementioned methods, was higher than the value of the net invested capital recorded in the financial statements.

The recoverability of the Group’s invested capital was also confirmed by a further sensitivity analysis undertaken by considering possible changes in the key assumptions included in the business and financial plan used for the impairment test.
In particular, the simulation of a worsening scenario was done by changing the value of net cash flows within the plan. Without prejudice to all the other assumptions included in the plan, the

analysis carried out showed that, in order to reach the indifference point (i.e. the value in use of the asset being equal to the net invested capital), there would have to be damaging changes to the plan such as to reduce the net cash flows by around 43%, a percentage which is much higher than the reductions considered possible by the Group.

13. Net deferred tax assets – 73,360 thousand euro

Deferred tax assets and deferred tax liabilities are determined based on the tax rates in force at the reporting date. Deferred tax assets totalled 175,756 thousand euro, while deferred tax liabilities totalled 102,396 thousand euro.

Deferred tax assets and liabilities at 31 December 2017 were determined using the tax rates in force: 24% for IRES and 4.57% for IRAP.

As for deferred tax liabilities, the 2,672 thousand euro increase included 930 thousand euro for recognising in OCI the tax consequences of the fair value measurement of the derivative and the measurement of defined benefit plans in accordance with IAS 19; the 3,880 thousand euro decline derived from the usual changes occurred during the year.

The change in deferred taxes assets for the year refers to increases for 17,112 thousand euro and decreases for 12,853 thousand euro due to regular changes in the year.

Considering, among other things, the flows estimated in the most recent business plans, the Group believes it can use deferred tax assets in the ordinary course of business.

The table below details changes in deferred tax assets and liabilities by type of temporary difference, determined according to the tax rates in force, and the portion of recoverable and non-recoverable deferred taxes.

	At 31.12.2016	Adjustments to UNICO	At 01.01.2017	Increases recognised in		Decreases recognised in		Other changes			Balance at 31.12.17
				Profit or Loss	Equity	Profit or Loss	Equity	Profit or Loss	Equity	Classified as assets available for sale	
Deferred income tax assets:											
allocation to provisions for risks and charges, deferred deductibility	**18,237**	-	18,237	4,701	-	(3,609)	-	-	-	-	**19,329**
allocation to provisions for exit and stock option	**991**	-	991	-	-	(281)	-	-	-	-	**710**
allocation to provisions for disputes	**4,698**	-	4,698	1,140	-	(1,701)	-	-	-	-	**4,138**
allocation to provisions for inventory obsolescence	**3,303**	-	3,303	102	-	(90)	-	-	-	-	**3,315**
impairment losses on deferred deductibility assets (receivables write-downs)	**2,643**	-	2,643	1,142	-	(389)	-	-	-	(27)	**3,369**
impairment losses on deferred deductibility assets (plant write-downs)	**1,900**	-	1,900	-	-	-	-	-	-	-	**1,900**
depreciation and amortisation of tangible and intangible assets, deferred deductibility	**80,952**	-	80,952	9,122	-	(3,593)	-	-	-	(107)	**86,375**
separation of land/buildings and component analysis	**114**	-	114	-	-	-	-	-	-	-	**114**
start-up costs	**2,225**	-	2,225	-	-	-	-	-	-	-	**2,225**
termination and other employee benefits	**2,791**	-	2,791	867	-	(711)	-	-	-	-	**2,948**
cash deductible taxes and duties	**12**	-	12	-	-	-	-	-	-	-	**12**
proceeds subject to deferred taxation (connection fees)	**32,381**	-	32,381	1	-	(187)	-	-	-	-	**32,194**
deferred deductibility charges	**17,901**	-	17,901	5	-	(2,245)	-	-	-	-	**15,661**
goodwill	**1,135**	-	1,135	-	-	-	-	-	-	-	**1,135**
termination benefits - Italian Accounting Body (OCI)	**2,267**	-	2,267	-	31	-	(46)	-	-	-	**2,252**
for losses recoverable in future years	**(0)**	-	(0)	-	-	-	-	-	-	-	**(0)**
other consolidation adjustments	**82**		82			(3)					**79**
Total	**171,631**	**-**	**171,631**	**17,081**	**31**	**(12,807)**	**(46)**	**-**	**-**	**(134)**	**175,756**
Deferred income tax liabilities:											
differences on tangible and intangible assets – additional depreciation and amortisation	**26,181**	-	26,181	332	-	(811)	-	-	-	-	**25,702**
differences on intangible assets – goodwill	**6,027**	-	6,027	-	-	(546)	-	-	-	-	**5,481**
separation of land/buildings and component analysis	**3,827**	-	3,827	-	-	-	-	-	-	-	**3,827**
allocation to assets of costs relating to company mergers	**42,070**	-	42,070	1	-	(1,826)	-	-	-	-	**40,245**
Termination benefits	**887**	-	887	-	51	-	-	-	-	-	**939**
proceeds subject to deferred taxation	**1,257**	-	1,257	1,330	-	(222)	-	-	-	-	**2,365**
derivative financial instruments (in case of a net positive change in the relevant equity reserve)	**4,174**	-	4,174.41	-	862	-	-	-	-	-	**5,036**
others…	**1,566**	-	1,566	33	-	(178)	-	-	-	-	**1,421**
derivative financial instruments and ASEM - Italian Accounting Body (OCI)	**16**	-	16	-	17	-	-	-	-	-	**33**
recording of deferred taxes due to merger	**17,597**	-	17,597	46	-	(296)	-	-	-	-	**17,348**
other consolidation adjustments	**0**		0								**0**
5% dividends received allocated to future years on an accruals basis	**1**	-	1	-	-	(1)	-	-	-	-	**0**
Total	**103,604**	**-**	**103,604**	**1,742**	**930**	**(3,880)**	**-**	**-**	**-**	**-**	**102,396**
Net deferred tax assets	**68,027**	**-**	**68,027**	**15,339**	**(899)**	**(8,928)**	**(46)**	**-**	**-**	**(134)**	**73,360**

14. Equity investments – 3,070 thousand euro

The table on the following page shows the changes in the year for each equity investment, with the corresponding values at the beginning and end of the year, as well as the list of equity investments held in other companies.

Thousands of euro	Carrying amount	% ownership	Contribution from change in the scope of consolidation:	Investments for the year	Disposals	Other decreases	Adjustments	Original cost	Write-downs/Write-ups	Carrying amount	% ownership
	at 31.12.2016		Changes in 2017					at 31.12.2017			
Associates											
Equity Method											
Melegnano Energia Ambiente SpA	2,490	40.00%		62				2,451	101	2,553	40.00%
Cbl Distribuzione Srl	368	40.00%				(368)		360	(360)	-	0.00%
Other companies											
Valuation at cost											
Interporto di Rovigo S.p.A.	42	0.30%						42		42	0.30%
Fingranda S.p.A.	26	0.58%						26		26	0.58%
Agenzia di Pollenzo S.p.A.	33	0.27%						33		33	0.27%
Industria e Università S.r.l.	11	0.09%						11		11	0.09%
Azienda Energetica Valtellina Valchiavenna S.p.A.	405	3.37%						405		405	3.37%
Terme di Offida SpA	1	0.19%						1		1	0.19%
Asogas S.p.A. in liquidazione	-	9.00%						-		-	9.00%
Alpifiere S.r.l. in fallimento	-	3.00%						-		-	3.00%
TOTAL EQUITY INVESTMENTS	**3,375**		**-**	**62**	**-**	**(368)**	**-**	**3,329**	**(259)**	**3,070**	

The following tables show the list of equity investments in associates and their values as recognised in the Group's financial statements at 31 December 2017:

B) Associates	Registered office	Share capital (euro)	Equity (euro)	Revenue (euro)	Income/loss latest year (euro)	End of the reporting period	% ownership	Consolidated carrying amount (euro)
Melegnano Energie Ambiente SpA	Melegnano (MI)	4,800,000	6,381,392	6,019,849	155,628	31.12.2016	40.00%	2,552,557

Finally, the equity investments in other companies at the same date were:

C) Other Companies	Registered office	Share capital (euro)	Equity (euro)	Revenue (euro)	Income/loss latest year (euro)	End of the reporting period	% ownership	Carrying amount (euro)
Interporto di Rovigo S.p.A.	Rovigo	5,836,159	5,571,811	1,151,895	(281,664)	31.12.2016	0.30%	41,634
Fingranda S.p.A.	Cuneo	2,662,507	1,733,568	10,221	(119,306)	31.12.2016	0.58%	25,822
Agenzia di Pollenzo S.p.A.	Bra (CN)	24,319,920	23,891,709	953,464	85,636	31.12.2016	0.27%	33,082
Industria e Università S.r.l.	Varese	13,440,528	11,217,654	-	(29,974)	31.12.2016	0.09%	10,989
Azienda Energetica Valtellina Valchiavenna S.p.A.	Tirano (SO)	1,803,562	20,716,406	6,842,046	1,768,068	31.12.2016	3.37%	405,000
Terme di Offida Spa	Offida (AP)	141,384	36,487	-	(96,324)	31.12.2016	0.19%	548
Asogas S.p.A. in liquidazione	Amandola (FM)	2,182	(47)	100	(2,229)	31.12.2016	9.00%	-
Alpifiere S.r.l. in fallimento	Morbegno (SO)	10,330	-	-	-	31.12.1998	3.00%	-

15. Non-current financial assets – 22,180 thousand euro

This line item included the measurement at 31 December 2017 of the Fair Value of the derivatives entered into in August 2016 which, thanks to the interest rate market trend, is currently positive to the tune of 20,984 thousand euro.

Thousands of euro	31.12.2017	31.12.2016	2017- 2016
Non-current prepaid financial expenses	531	690	(158)
Long-term loans to employees	50	59	(8)
Financial receivables due from others	614	614	-
Fair value measurement of IRS derivatives	20,984	17,393	3,591
Total	**22,180**	**18,756**	**3,424**

16. Other non-current assets – 51,796 thousand euro

This item increased by 6,745 thousand euro compared to 31 December 2016; it is broken down as follows:

Thousands of euro

	31.12.2017	31.12.2016	2017 - 2016
security deposits	3,074	3,493	(419)
receivables for plant contributions	560	560	-
tax receivables reimbursements applied for	1,598	1,830	(232)
prepaid promotional expenses	136	197	(61)
receivables from municipalities for disposals of assets due to expiration of concessions	8,723	10,283	(1,560)
receivables from CSEA	23,385	16,005	7,380
other non-current assets	14,468	12,830	1,637
bad debt provision	(147)	(147)	-
Total	**51,796**	**45,051**	**6,745**

Guarantee deposits totalled 3,074 thousand euro and referred to receivables for work to be performed on distribution plants as well as from user contracts.

The 560 thousand euro contribution receivables have not changed during the year; the amount refers to recognition of the medium-/long-term portion of receivables for plant contributions and decreases in the year due to income received.

Tax receivables reimbursements applied for, totalling 1,598 thousand euro, related to the refund claimed pursuant to art. 6 of Italian Law Decree 185/2008 (deduction of IRES from the IRAP portion for labour costs and interest expense). The change in the year was due to the partial refund that took place in 2017.

The receivable due from municipalities for disposals of assets due to the expiration of concessions had a balance of 8,723 thousand euro, further down compared to the previous year. This item refers to receivables which are subject to legal challenge or similar ongoing procedures with municipalities in order to define the amount of the refund owed to the Group as outgoing operator for some concessions which have been ended over the years. This year, too, the Group placed special emphasis on this issue, unlocking a further tranche of receivables by reaching out-of-court settlements.

The balance of non-current receivables due from the Fund for Energy and Environmental Services (CSEA) referred to the amount that ARERA decided must be paid to distribution companies for all the conventional meters that must be replaced with smart ones pursuant to Resolution 155/09, but that had not yet been fully amortised through tariffs at the date of their replacement.
The significant increase was the result of the replacements made during 2017, which are expected to continue in the following year.

Finally, the 1,637 thousand euro increase in other non-current assets included the balance of the advance payments of the fees that distribution companies must pay to contracting authorities for ATEM tenders (9,014 thousand euro at 31 December 2017), as well as the remaining amount of the prepaid expenses for the lease payment paid in advance by the Parent Company to the company API, which owns the networks operated in the municipality of Rozzano (3,625 thousand euro).

Current assets

17. Inventories – 19,008 thousand euro

Closing inventories of raw materials, ancillaries and consumables mainly consist of materials for construction and maintenance of gas and water distribution plants and, in particular, of the new smart meters.
The item includes the provision for the write-down of inventories equal to 648 thousand euro. The provision was set up to take into account inventories with unlikely future use.
The Group uses the weighted average cost method.

18. Trade receivables – 273,880 thousand euro

Trade receivables were up 39,777 thousand euro compared to 31 December 2016.

This item is broken down as follows:

Thousands of euro

	31.12.2017	31.12.2016	2017 - 2016
Third-party customers:			
Receivables due from customers	280,549	247,131	33,418
- Bad debt provision	(9,057)	(13,821)	4,764
Receivables for returns under warranty	5,065	951	4,114
- Bad debt provision	(2,677)	(157)	(2,520)
Total	**273,880**	**234,104**	**39,777**

Receivables due from third-party customers consist of trade receivables and receivables from operations and include receivables relating to gas distribution and to the invoicing of water sales.
Receivables due from customers are recognised net of a 9,057 thousand euro bad debt provision, compared to 13,821 thousand euro at the beginning of the year.

Changes in the bad debt provision are set out below.

Thousands of euro

	31.12.2017	31.12.2016	2017 - 2016
At 31 December 2016	**13,821**	**13,653**	**168**
Allocations	485	1,892	(1,407)
Releases	(1,714)	(525)	(1,189)
Uses	(3,384)	(1,199)	(2,184)
Other changes	(151)	-	(151)
At 31 December 2017	**9,057**	**13,821**	**(4,764)**

The bad debt provision at 31 December 2017 was subject to taxes of 8,724 thousand euro (10,345 thousand euro at 31 December 2016).

The Group operated exclusively in Italy.

19. Short-term financial receivables – 8 thousand euro

Short-term financial receivables, totalling 8 thousand euro, consist of financial receivables due from Group employees.

20. Other current financial assets – 9 thousand euro

Other current financial assets contain the accrued interest income unpaid by the bank at 31 December 2017.

21. Cash and cash equivalents – 816,138 thousand euro

Cash and cash equivalents rose by 632,941 thousand euro owing to the issue of a debenture loan instalment under the EMTN programme approved in the year.
Following this issue, the resulting cash was temporarily invested in the very short term in order to be available for the capital contribution to the newly established 2i Rete Gas Impianti S.r.l., which was planned for the first few days of 2018.
On 2 January 2018, the subsidiary received in fact 730,000 thousand euro as a capital contribution.
The amount was used to pay for the investment in Nedgia S.p.A. and Gas Natural Italia S.p.A. and for refinancing the related bank debt in February 2018.

Cash and cash equivalents are broken down as follows:

Thousands of euro

	31.12.2017	31.12.2016	2017 - 2016
Bank deposits	815,611	182,784	632,828
Post office deposits	372	266	106
Cash in hand	155	148	8
Total	**816,138**	**183,197**	**632,941**

Cash associated with operating activities is held in bank and post office deposits.

22. Income tax receivables – 19,358 thousand euro

Income tax receivables for IRES and IRAP totalled 19,238 thousand euro and 119 thousand euro, respectively. The 11,162 thousand euro increase was due to the payments on account made during 2017.

23. Other current assets – 172,370 thousand euro

Other current assets fell by 8,682 thousand euro compared to 31 December 2016 mainly due to the 21,238 thousand euro fall in receivables due CSEA; these receivables include the amount which must be recognised for energy efficiency certificates (35,809 thousand euro), the amount arising from the equalisation of the gas distribution service (28,497 thousand euro), receivables for the UG2 components and the Gas Bonus (49,109 thousand euro) and the recognition of Technical Quality (29,295 thousand euro).
In particular, receivables for energy efficiency certificates, following the introduction of the change to the procedures for the related payments on account, fell by 30,186 thousand euro compared to the previous year.
Receivables from municipalities for disposals of assets fell in 2017 largely due to the settlement of the dispute with the Municipality of Sabbioneta.
Finally, the increase in the provision for other doubtful debts involved the write-down made to a receivable for energy efficiency certificates, the collectability of which has become doubtful.

The item is broken down as follows:

Thousands of euro	31.12.2017	31.12.2016	2017 - 2016
Other tax receivables:			
VAT receivables reimbursements applied for	7,326	933	6,393
Receivables due from tax authorities for VAT	7,457		7,457
Other tax receivables	122	117	5
Other receivables:			
From social security and insurance agencies	361	340	21
For plant contributions	1,932	1,529	403
From CSEA	147,315	168,553	(21,238)
From municipalities for disposals of assets due to expiration of concessions	1,306	2,662	(1,356)
from municipalities	246	246	-
From suppliers	2,940	1,548	1,393
Other receivables	3,699	4,150	(451)
Provision for other doubtful debts	(2,472)	(1,152)	(1,320)
Accrued income	1	1	-
Deferred expenses relating to other multi-year charges	51	51	-
Deferred expenses relating to real estate lease fees	521	713	(192)
Deferred promotional expenses	27	-	27
Deferred insurance premiums	14	78	(64)
Other deferred expenses	1,525	1,285	240
Total	**172,370**	**181,053**	**(8,682)**

37. Assets held for sale – 2,141 thousand euro

During the year, the water concessions in Villasanta and Moscufo were classified as assets held for sale, in the former case, by virtue of the sale contract signed in December 2017 and executed in January 2018 and, in the latter case, in compliance with the agreements reached between the parties (and included in a contract which was already executed at the reporting date). The previous year, the item had a nil value.

Liabilities

Equity

24. Equity – 759,932 thousand euro

Equity rose by 39,515 thousand euro as a result of the following changes:

- decrease in the ordinary dividend pay-out for an overall amount of 85,032 thousand euro;
- 2,937 thousand euro positive change in IAS reserves following the fair value recognition of derivatives in OCI;
- 121,624 thousand euro increase in profit for the year.
- 14 thousand euro other changes.

Share capital – 3,639 thousand euro
The share capital at 31 December 2017 consisted of 363,851,660 ordinary shares of 2i Rete Gas S.p.A. and amounted to 3,639 thousand euro, entirely subscribed and paid up.

Share premium reserve – 286,546 thousand euro
The share premium reserve did not change in the year.

Legal reserve – 728 thousand euro
The legal reserve amounted to 728 thousand euro and was unchanged, as last year it reached the legal limit.

Reserves for valuation of derivatives – 15,948 thousand euro
The Group created the reserve for valuation of derivatives in 2016 after entering into Forward Starting Interest Rate Swap contracts in August 2016. At the end of December 2017, the reserve turned positive to the tune of 15,948 thousand euro, net of the relevant tax effects (see section 15 in these notes).

Other reserves – 206,939 thousand euro
Other reserves, totalling 206,939 thousand euro, increased by 194 thousand euro compared to the previous year, mainly due to the recognition of the impact of the actuarial valuation of the Group’s defined benefit plan in equity.

Retained earnings – 124,508 thousand euro
Retained earnings rose 44,432 thousand euro from the previous year as a result of the allocation of the profit for the year and the dividend paid out in 2017.

Profit for the period – 121,624 thousand euro
The profit for 2017, compared to that for 2016 (129,464 thousand euro), fell by 7,840 thousand euro, largely due to the impact of the financial charges for the liability management exercise in the year.

Non-current liabilities

25. Long-term loans – 2,806,984 thousand euro

The item refers to the five instalments of the long-term debenture loan the Group issued between 2014 and 2017 as well as 425 million euro in three credit lines received from the European Investment Bank used between 2015 and 2017.
The table below shows long-term debt expressed in the original currency and the relevant interest rate. The notional amount of the loan is the same as its carrying amount.

Thousands of euro	Balance		Notional Value		Interest rate	Effective
	31.12.2017	31.12.2016	31.12.2017	31.12.2016	in force	interest rate
Fixed rate debt	70,000	70,000	70,000	70,000	1.39%	1.39%
Fixed rate debt	155,000	-	155,000	-	1.40%	1.40%
Floating rate debt	200,000	200,000	200,000	200,000	Eur+0,59%	0.32%
Debenture loan expiring 2019	362,793	750,000	362,793	750,000	1.75%	1.89%
Debenture loan expiring 2020	267,100	540,000	267,100	540,000	1.13%	1.35%
Debenture loan expiring 2024	600,000	600,000	600,000	600,000	3.00%	3.13%
Debenture loan expiring 2026	435,000	-	435,000	-	1.75%	1.91%
Debenture loan expiring 2027	730,000	-	-	-		
Costs linked to loans (long term)	(12,909)	(11,576)	-	-		
TOTAL	**2,806,984**	**2,148,424**	**2,089,893**	**2,160,000**		

The maturity schedule for these financial liabilities is set out below.

Thousands of euro	Notional at 31.12.2017	Notional at 31.12.2016	1 year	2 - 5 years	beyond 5 years
Medium/long-term financial liabilities					
Financing	425,000	270,000	-	54,545	370,455
Medium/long-term debenture loans	2,394,893	1,890,000	-	629,893	1,765,000
Total	2,819,893	2,160,000	-	684,438	2,135,455

The debenture loan regulation, issued for a market of institutional investors, does not provide for covenants.
The loan agreement finalised at the end of 2016 with the European Investment Bank for a total of 225 million euro was used in full during 2017.

Both loans taken out with the European Investment Bank are subject to some covenants calculated on the basis of the consolidated financial statements that the Company must meet to continue using the credit lines.
The covenants concern the following indicators:

- Total net financial debt;
- RAB (Regulatory Asset Base);
- EBITDA;
- Net Financial Expenses.

At 31 December 2017, the Group met all covenants under this facility.

26. Post-employment and other employee benefits – 46,036 thousand euro

The Group provides employees with various types of benefits, including post-employment benefits, health benefits, payment in lieu of notice (*Indennità Sostitutive del Preavviso* - ISP) and payment in lieu of energy discount (*Indennità Sostitutive Sconto Energia*).

The item includes provisions for post-employment defined benefit plans and other long-term employee benefits required by law or contract.

Pursuant to IAS 19 Revised, these “defined benefit obligations” were determined using the “Projected Unit Credit Method”, which requires to calculate the liability in proportion to the service already rendered at the reporting date, and not the service that could presumably be rendered overall.
In detail, the plans provided for the following benefits:

Thousands of euro

	31.12.2017	31.12.2016	2017 - 2016
Post-employment benefits	33,372	34,933	(1,561)
ASEM health service	1,787	1,820	(33)
Fondo GAS	10,878	11,334	(456)
	46,036	**48,086**	**(2,050)**

An analysis of the main items is provided below.

Post-employment benefits

Under Italian law, when the employment relationship ends, the employee is entitled to receive post-employment benefits, measured as a portion for each year of service of their gross annual compensation divided by 13.5.
Following the approval of Italian Law No. 296 of 27 December 2006 (the 2007 budget law) and subsequent decrees and enabling legislation, only the portions of post-employment benefits held with the Company qualify as a defined benefit plan, while the accrued portions allocated to supplementary pension schemes and the Treasury Fund at INPS (the Italian Social Security Agency) qualify as a defined contribution plan.

Health benefits

Based on the Italian collective bargaining agreement for executives in the industrial sector, executives have the right to supplemental health care in addition to that provided by the Italian Health Service, during both the employment relationship and retirement. Asem and

FASI, the health care fund set up for workers in Italy's electricity industry, reimburse medical expenses.

Fondo Gas

Italian Law Decree No. 78/2015, coordinated with Italian Law No. 125/2015 (Official Journal 14/08/2015), ordered the elimination of the so-called “Fondo Gas” (gas fund) as from 1 December 2015. The decree also provided for the payment, either to current employees or as a voluntary continuation of the contribution to Fondo Gas, of an amount (to be paid by the employer) equal to 1% of the 2014 contribution to Fondo Gas, for each full year or any part thereof that the person has been a member of the fund. Said amount can be set aside with the employer or paid as a contribution to a supplementary pension scheme (hereinafter referred to as Contribution to the former Fondo Gas). The provision shall be made in 240 equal monthly instalments. Should the employment relationship end before the payments are completed, the remaining amount to be paid to Fondo Gas shall be paid in a lump sum at the time of the final wage bill.
The Group set aside an additional amount during the year after revising the estimate based on the more accurate data available on the average seniority of current employees for the purposes of Fondo Gas.

The main assumptions in the actuarial estimates of employee benefit liabilities are set out below.

	31.12.207	31.12.2016
Actuarial assumptions		
Discount rate	1.50%	1.50%
Annual rate of increase in cost of living	1.50%	1.50%
Rate of increase in cost of health spending	2.50%	2.50%
Ipotesi demografiche		
Probability of death/invalidity	ISTAT Table 2014	ISTAT Table 2014
Resignation rate < 50 years of age	2.00%	2.00%
Resignation rate > 50 years of age	nil	nil

27. Provisions for risks and charges – 9,870 thousand euro

Provisions for risks and charges are used to cover contingent liabilities that could arise from litigation or other disputes of the Company, without taking into account the effects of disputes that could have a positive outcome and those for which a possible charge cannot be reasonably quantified.

Provisions for risks and charges (considering both the short-term and the medium-/long-term portion) increased by 1,585 thousand euro overall compared to 31 December 2016.
The table below shows the total provisions for risks and charges (both the short-term and the medium-/long-term portion). The short-term portion is disclosed separately.

Thousands of euro	31.12.2016	Of which current portion	Of which non-current portion	Allocations	Releases	Uses	31.12.2017	Of which current portion	Of which non-current portion
Provisions for litigation and disputes	10,286	-	10,286	3,626	(4,082)	(1,797)	8,033	-	8,033
Provision for taxes and duties	937	-	937	1,359	(577)	(59)	1,661	-	1,661
Provisions for disputes with personnel	100	-	100	-	-	-	100	-	100
Provision for future charges	75	-	75	-	-	-	75	-	75
Provision for disputes on concessions	19,078	19,078	-	6,240	(3,324)	(247)	21,748	21,748	-
Other provisions for risks and charges	50,725	48,537	2,189	10,579	(7,497)	(1,656)	52,152	52,152	-
Total	**81,201**	**67,614**	**13,586**	**21,804**	**(15,479)**	**(3,758)**	**83,769**	**73,899**	**9,870**
Provisions for charges pertaining to incentives to leave	3,470	3,470	-	-	-	(983)	2,487	2,487	-
Total	**84,671**	**71,084**	**13,586**	**21,804**	**(15,479)**	**(4,740)**	**86,256**	**76,387**	**9,870**

Provisions for risks and charges amounted to 86,256 thousand euro overall. They consisted of a 76,387 thousand euro short-term portion and a 9,870 thousand euro long-term portion, and were broken down as follows:

- “Provision for litigation and disputes" covers 8,033 thousand euro in contingent liabilities arising largely from ongoing disputes; the change during the year was the result of releases relating to the positive outcome of a dispute over the construction of a purification plant in Syria, completed in the 2000s by a company that was then merged into the Group, as well as the payment of a consideration to settle a dispute over the purchase value of Genia Distribuzione, with the partial use of the relevant provision;
- “Provision for taxes and duties”, amounting to 1,661 thousand euro, mainly refers to disputes or possible challenges about the tax on the occupation of public space (TOSAP), the fee for the temporary occupation of public space (COSAP), the municipal property tax (ICI), and other local taxes;
- “Provision for disputes with personnel”, amounting to 100 thousand euro, covers expected charges arising from disputes with personnel of a company acquired in previous financial years. The Group did not consider it necessary to change this item in these financial statements;
- “Provision for disputes on concessions”, totalling 21,748 thousand euro, generally includes the costs associated with various disputes with municipalities. This line item rose by a net 2,916 thousand euro following the requests made by municipalities to revise the agreed concession fees; during the year, the Group used 247 thousand euro;

- "Other provisions for risks and charges", amounting to 52,152 thousand euro, cover the costs that could potentially arise from the need for maintenance or replacement of meters not fully compliant with corporate standards, as well as the risk of some tariff reviews related to concessions owned by third parties; as for this risk, last year, the Parent Company appealed against ARERA's decision to revise said tariffs for a number of concessions;
- "Provision for charges pertaining to incentives to leave", totalling 2,487 thousand euro, addresses possible liabilities that may arise from agreements defined or in the process of being defined for the incentives to leave which started during the year and are still under way.

The fiscal position of the Group has been defined up to 2012.

28. Non-current financial liabilities – 0 thousand euro

At 31 December 2017, as in the previous year, the Group did not have any non-current financial liabilities.

29. Other non-current liabilities – 311,429 thousand euro

This item increased by 8,309 thousand euro compared to the previous year. The breakdown is set out below:

Thousands of euro

	31.12.2017	31.12.2016	2017 - 2016
Payables to social security and insurance agencies	1,984	1,984	-
Other payables	361	361	-
Plant contributions	47,030	47,677	(647)
Deferred income for connection fees, property subdivision, plant transfer and network extension contributions	262,054	253,098	8,956
Total deferred income	**311,429**	**303,120**	**8,309**

The 8,956 thousand euro increase in deferred income for connection fees was largely due to the fees collected in the year.

Current liabilities

30. Short-term loans – 0 thousand euro

At 31 December 2017, as in the previous year, the Group had no short-term loans outstanding.

31. Current portion of medium-/long-term bank loans – 0 thousand euro

At 31 December 2017, there was no current portion of medium-/long-term bank loans, as in the previous year.

32. Current portion of long-term provisions and short-term provisions – 76,387 thousand euro

The current portion of long-term provisions amounted to 76,387 thousand euro. Comments and details on this item are provided in the section on provisions for risks and charges (note 27).

33. Trade payables – 208,103 thousand euro

This item includes all trade and operating liabilities of certain amount and timing. All reported payables were incurred in Italy.

Compared to 31 December 2016, this item rose by 41,366 thousand euro, mainly due to the increase in investments in distribution networks.

The breakdown of trade payables to third-party suppliers is set out below.

	31.12.2017	31.12.2016	2017 - 2016
Suppliers	208,103	166,737	41,366
Total	**208,103**	**166,737**	**41,366**

The balance at 31 December 2017 mainly consists of residual amount payable to companies to which gas distribution plant construction and maintenance is outsourced, of payables arising from staff and operating support services, and from the purchase of electricity and gas service for internal use.

34. Income tax payables – 24 thousand euro

At 31 December 2017, income tax payables amounted to 24 thousand euro and related to an IRAP payable.

35. Current financial liabilities – 19,559 thousand euro

Current financial liabilities refer to the interest expense accrued and not yet paid relating to the three instalments of the debenture loan issued between 2014 and 2017.

Thousands of euro	31.12.2017	31.12.2016	2017 - 2016
Accrued liabilities for interest on short-term bank loans and bank expenses	18,984	20,572	(1,588)
Other current financial liabilities	575	527	48
Total	**19,559**	**21,099**	**(1,540)**

36. Other current liabilities – 187,482 thousand euro

Other current liabilities increased in the year by 30,469 thousand euro, mainly due to the fall in “Other payables”, an item which also includes the debt to the Fund for Energy and Environmental Services (CSEA) for the items relating to the various tariff components, partially offset by “Other tax payables” for VAT, which decreased due to the fiscal regulations relating to the so-called “split payment” and the Group’s relevant fiscal position.
Other current liabilities are set out below:

Thousands of euro	31.12.2017	31.12.2016	2017- 2016
other tax payables	3,963	12,583	(8,620)
payables to social security and pension agencies	10,025	10,234	(209)
other payables	158,747	118,859	39,888
accrued liabilities	4,066	4,049	18
deferred income	10,680	11,289	(609)
Total	**187,482**	**157,013**	**30,469**

Other tax payables, amounting to 3,963 thousand euro, are set out below.

Thousands of euro	31.12.2017	31.12.2016	2017- 2016
VAT payables	431	8,954	(8,522)
Employee withholding taxes	3,271	3,476	(205)
Withholding taxes	210	103	107
Other taxes	50	50	-
Total	**3,963**	**12,583**	**(8,620)**

Payables to welfare and social security agencies, amounting to 10,025 thousand euro, are set out below.

Thousands of euro	31.12.2017	31.12.2016	2017- 2016
due to INPS	9,019	9,429	(410)
due to other agencies	1,006	805	201
Total	**10,025**	**10,234**	**(209)**

Other payables, amounting to 158,747 thousand euro, are set out below.

Thousands of euro	31.12.2017	31.12.2016	2017- 2016
Payables to employees	12,716	14,189	(1,473)
Payables to municipalities for rights and fees	3,312	4,022	(709)
Connection payables and other payables due to customers	2,100	2,076	24
User security deposits and advances	2,136	2,289	(154)
Payables to CSEA	131,970	90,022	41,948
Other payables	6,513	6,261	252
Total	**158,747**	**118,859**	**39,888**

Payables to the Fund for Energy and Environmental Services (CSEA) consist of 92,856 thousand euro payables for the entries that are transferred to the trading companies through the invoicing mechanism and then paid to CSEA, generally on a bi-monthly basis (UG1, UG2, UG3, Re, Gs and Rs) and residual payables mainly relating to the amount of equalisation for previous years and the current year totalling 37,456 thousand euro.

Accrued liabilities and deferred income, amounting to 14,747 thousand euro, are set out below.

Thousands of euro	31.12.2017	31.12.2016	2017- 2016
Accrued liabilities			
Additional monthly accrual for employees	3,054	3,098	(44)
Other accrued liabilities	1,013	951	62
Total accrued liabilities	**4,066**	**4,049**	**18**
Deferred income			
Deferred income for plant contributions	2,202	2,953	(751)
Deferred income for connection fees, property subdivision, plant transfer and network extension contributions	8,298	8,116	183
Other deferred income	180	220	(41)
Total deferred income	**10,680**	**11,289**	**(609)**
Total accrued liabilities and deferred income	**14,747**	**15,338**	**(591)**

37. Liabilities held for sale – 2,332 thousand euro

In 2017, liabilities held for sale totalled 2,332 thousand euro and related to the business unit represented by the water concession in Villasanta.

Related party disclosures

Related parties are identified in accordance with international accounting standards.

The following were defined as related parties for 2017:

- F2i SGR S.p.A. – as the operating company of "F2i – Italian Infrastructure Fund, closed-end investment fund, reserved for qualified investors" ("F2i – *Fondo Italiano per le Infrastrutture, fondo di investimento mobiliare di tipo chiuso, riservato ad investitori qualificati*")
- F2i SGR S.p.A. – as the operating company of "F2i – Second Italian Infrastructure Fund, closed-end investment fund, reserved for qualified investors" ("F2i – *Secondo Fondo Italiano per le Infrastrutture, fondo di investimento mobiliare di tipo chiuso, riservato a investitori qualificati*")
- Finavias Sarl
- Axa Infrastructure Holding S.à r.l.
- Melegnano Energia Ambiente S.r.l. (MEA S.p.A.)
- Software Design S.p.A.

The definition of related parties includes key management personnel, including their close relatives, of the Parent Company as well as of the companies controlled directly and/or indirectly by them, jointly controlled companies and those in which the Parent exercises considerable influence. Key management personnel are those who have direct and indirect power and responsibility for planning, management, and control of company operations, including Directors and auditors.

All the commercial balances are for transactions at market values.

Trade, financial and other transactions involving the Group, its parent companies and its subsidiaries are shown below.

Trade and other transactions

Year 2017

	Trade		Trade	
Thousands of euro	Receivables	Payables	Costs	Revenues
F2i sgr Spa		10	40	
MEA S.p.A	18	-	-	18
Software Design S.p.A.	-	487	646	-
Key management personnel, including directors and auditors		283	2,205	
Total	**18**	**780**	**2,891**	**18**

Year 2016

	Trade		Trade	
Thousands of euro	Receivables	Payables	Costs	Revenues
CBL Distribuzione	1,581	450	152	479
MEA S.p.A	55	-	-	-
Software Design S.p.A.	-	640	1,046	-
Key management personnel, including directors and auditors		914	3,028	
Total	**1,636**	**2,004**	**4,226**	**479**

Financial transactions

Year 2017

	Financial		Financial		
Thousands of euro	Receivables	Payables	Costs	Revenues	Dividend payment
F2i – Fondo Italiano per le Infrastrutture (managed by F2i sgr Spa)					54,335
F2i – Secondo Fondo Italiano per le Infrastrutture (managed by F2i sgr Spa)					6,894
Finavias S. à r.l.					18,112
Axa Infrastructure Holding S. à r.l.					5,640
MEA S.p.A	-			62	
Software Design S.p.A.	-			-	
Total	**-**	**-**	**-**	**62**	**84,981**

Year 2016

	Financial		Financial		
Thousands of euro	Receivables	Payables	Costs	Revenues	Dividend payment
F2i – Fondo Italiano per le Infrastrutture (managed by F2i sgr Spa)					54,335
F2i – Secondo Fondo Italiano per le Infrastrutture (managed by F2i sgr Spa)					6,894
Finavias S. à r.l.					18,112
Axa Infrastructure Holding S. à r.l.					5,640
CBL Distribuzione				17	
MEA S.p.A	100			124	
Software Design S.p.A.	-			-	
Total	**100**	**-**	**-**	**141**	**84,981**

Significant extraordinary events and operations

Pursuant to CONSOB Communication of 28 July 2006 No. DEM/6064293, there were no significant extraordinary events or operations during the year.

Positions or transactions arising from atypical and/or unusual operations

Pursuant to CONSOB Communication of 28 July 2006 No. DEM/6064293, there were no positions or transactions arising from atypical and/or unusual operations during the year.

Fees for Directors, auditors and key management personnel

In 2017, the fees for directors, auditors and key management personnel, totalling 2,205 thousand euro, included 55 thousand euro in auditors' fees and 335 thousand euro in directors' fees.

Remuneration of the Independent Auditors

The 2017, remuneration of the independent auditors totalled 552 thousand euro and included the annual auditing of the statutory and consolidated financial statements, the auditing of the unbundling financial report and the statements required by ARERA, and, to a lesser extent, specific consulting services.

Contractual commitments and guarantees

The Group provided 99,164 thousand euro in guarantees to third parties. These guarantees include 84,112 thousand euro in bank guarantees and 15,052 thousand euro in insurance and other guarantees.
These guarantees were provided in favour of maintenance and extension work for the distribution networks as well as the participation in tenders for operating gas distribution services.
Moreover, pursuant to paragraph 22-ter of art. 2427 of the Italian Civil Code, there are no agreements that have not been disclosed in the financial statements that could significantly impact the Company's financial statements.

Operating segment reporting

The Group is managed as a single business unit operating mainly in natural gas distribution through networks, and therefore management analyses the Group's operations as a whole.
The reporting format used by management to take operating decisions is aligned with the formats used in the consolidated financial statements shown herein, excluding the impact of IFRIC 12 and highlighted in note 5.c as well as in the section on costs.

Contingent liabilities and assets

Contingent liabilities

Currently there are no contingent liabilities.

Contingent assets

Currently there are no contingent assets.

Credit, liquidity and market risk

Credit risk

The 2i Rete Gas Group provides its distribution services to over 260 sales companies, the most significant of which is Enel Energia S.p.A.
In relation to invoiced volumes, no significant cases of non-compliance by the counterparties were found in 2017.
User access to the gas distribution service is governed by the Network Code, which, in compliance with the provisions of ARERA, establishes the rights and obligations of the entities involved in the distribution service process, as well as the contractual clauses that reduce the risk of breach by the sales companies.
As part of gas distribution operations, the credit lines to external counterparties are carefully monitored by assessing the relevant credit risk and requiring adequate guarantees and/or security deposits, ensuring an appropriate level of protection against the risk of default by the counterparty.
Outstanding guarantees and security deposits on trade receivables totalled 122,622 thousand euro.

Therefore, the credit risk is mitigated.

A summary quantitative indication of the maximum exposure to credit risk is represented by the carrying amount of financial assets, gross of the relevant bad debt provision.

At 31 December 2017, the Group’s maximum exposure to credit risk amounted to 1,333.7 million euro:

Millions of euro	31.12.2017	31.12.2016	2017- 2016
Third parties:			
Non-current financial assets	22.2	18.8	3.4
Other non-current assets (gross of bad debt provision)	51.9	45.0	6.9
Trade receivables (gross of bad debt provision)	285.6	248.1	37.5
Other current financial assets	0.0	0.9	(0.9)
Cash and cash equivalents	816.1	183.2	632.9
Other receivables (gross of bad debt provision)	157.8	179.0	(21.2)
Total	**1,333.7**	**675.0**	**658.7**

Liquidity risk

Based on the current financial structure and the expected cash flows as projected in the business plans, the 2i Rete Gas Group is able to autonomously meet the financial requirements of its ordinary operations and ensure business continuity.
Besides the debenture loans issued in 2014 and 2017, the Group has entered into two loans with the European Investment Bank in 2015 and 2016, totalling 425 million euro (fully used at 31 December 2016). The aforementioned liability management exercise enabled the Company to further improve, during the year, the duration and the interest rate compared to the previous loan.
In order to properly disclose liquidity risk as required by IFRS 7, here below are the characteristics of the Company's debt.

The contractual maturities of the financial liabilities outstanding at 31 December 2017 are set forth below:

Millions of euro	Within next year	Between 2 and 5 years	Beyond 5 years
Financial liabilities at 31 December 2017			
Long-term loans		54.5	370.5
Medium-/long-term debenture loans		629.9	1,765.0
Short-term loans	-		
Short-term payables due to banks	-		
Other long-term financial liabilities			
Other short-term financial liabilities	19.6		
Total	**19.6**	**684.4**	**2,135.5**

For comparative purposes, the contractual maturities of the financial liabilities outstanding at 31 December 2016 are set forth below:

Millions of euro	Within next year	Between 2 and 5 years	Beyond 5 years
Financial liabilities at 31 December 2016			
Long-term loans		36.4	233.6
Medium-/long-term debenture loans		1,290.0	600.0
Short-term loans	-		
Short-term payables due to banks	-		
Other long-term financial liabilities			
Other short-term financial liabilities	21.1		
Total	**21.1**	**1,326.4**	**833.6**

The projected liquidity requirements are estimated based on the cash flows expected from ordinary operations.
It should be noted that loans are subject to regular checks on the compliance with some financial covenants at consolidated level.
At 31 December 2017, the Company has met all of the covenants.

"Medium-/long-term debenture loans", totalling 2,395 million euro, refer to the aforementioned instalments issued by 2i Rete Gas and expiring between 2019 and 2027.
The Company's growth plan requires refinancing existing debt, but given the Company's excellent performance, the rating obtained, and the ongoing compliance with the financial covenants established by the lending banks, currently the Group does not face any problems in obtaining said refinancing.
The Company constantly monitors opportunities to optimise its financial structure.
For an in-depth analysis of long-term loans, see note 25 in these financial statements.

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices as a result of changes in exchange rates, interest rates, or the prices of equity instruments.

Transactions that qualify for hedge accounting pursuant to the requirements of the accounting standards are designated as hedging transactions, while those that do not meet such requirements are classified as trading transactions, even though, from a management point of view, they have been entered into for hedging purposes.

The Group had no derivatives held for trading or for speculative purposes.

As from August 2016, the Parent Company entered into 5 Forward Starting Interest Rate Swaps.
For more details, see the "Interest rate risk" section.

In accordance with IFRS 7, the table below shows financial assets and liabilities, disclosing their carrying amount and fair value. The Company has no financial assets held to maturity or available for sale nor financial assets held for trading.

Thousands of euro	Notes	Derivatives	Loans and receivables	Available for sale	Other financial liabilities and payables	Total	Fair value
Financial assets measured at fair value							
Non-current financial assets	15	20,984				20,984	20,984
Financial assets not measured at fair value							
Non-current financial assets	15		1,196			1,196	1,196
Other non-current financial assets	16		51,660			51,660	51,660
Trade receivables	18-37		273,880	541		274,421	274,421
Short-term financial receivables	19		8			8	8
Other current financial assets	20		9			9	9
Cash and cash equivalents	21		816,138			816,138	816,138
Other current assets	23		170,233			170,233	170,233
TOTAL ASSETS		**20,984**	**1,313,124**	**541**	**-**	**1,334,649**	**1,334,649**
Financial liabilities measured at fair value							
IRS derivatives	35	-				-	-
Financial liabilities not measured at fair value							
Long-term loan	25-31				425,000	425,000	425,000
Medium-/long-term debenture loans	25				2,381,984	2,381,984	2,515,946
Financial liabilities for Unwinding IRS	28-35				-	-	-
Other non-current liabilities	29				361	361	361
Short-term loan	30				-	-	-
Trade payables	33-37			2,332	208,103	210,436	210,436
Current financial liabilities	35				18,984	18,984	18,984
Other current liabilities	36				176,801	176,801	176,801
TOTAL LIABILITIES		**-**	**-**	**2,332**	**3,211,234**	**3,213,566**	**3,347,528**

In order to enable comparison, we propose the same table as the one used in 2016:

Thousands of euro	Notes	Derivatives	Loans and receivables	Other financial liabilities and payables	Total	Fair value
Financial assets measured at fair value						
Non-current financial assets	15	17,393			17,393	17,393
Financial assets not measured at fair value						
Non-current financial assets	15		1,362		1,362	1,362
Other non-current assets	16		45,198		45,198	45,198
Trade receivables	18		234,104		234,104	234,104
Short-term financial receivables	19		917		917	917
Other current financial assets	20		14		14	14
Cash and cash equivalents	21		183,197		183,197	183,197
Other current assets	23		178,925		178,925	178,925
TOTAL ASSETS		**17,393**	**643,716**	**-**	**661,109**	**661,109**
Financial liabilities measured at fair value						
IRS derivatives	35	-			-	-
Financial liabilities not measured at fair value						
Long-term loan	25-31			270,000	270,000	270,000
Medium-/long-term debenture loans	25			1,878,424	1,878,424	2,017,138
Financial liabilities for Unwinding IRS	28-35			-	-	-
Other non-current liabilities	29			361	361	361
Short-term loan	30			-	-	-
Trade payables	33			166,737	166,737	166,737
Current financial liabilities	35			20,572	20,572	20,572
Other current liabilities	36			145,724	145,724	145,724
TOTAL LIABILITIES		**-**	**-**	**2,481,819**	**2,481,819**	**2,620,532**

With regard to financial assets not measured at fair value, as well as trade payables and other current liabilities, the carrying amount is considered to be a reasonable approximation of the fair value, as it is set forth in the tables above.

For the purposes of determining the fair value of the debenture loan, the Group has used the market valuations at the end of the reporting period.

Interest rate risk

The Group manages interest rate risk with the goal of achieving a balanced debt structure, reducing the amount of financial debt exposed to changes in interest rates and minimising funding costs over time, thereby limiting volatility in performance. To this end, the Group uses derivative contracts, and specifically interest rate swaps.
Concerning the current debt structure, 2,620 million euro out of a reported 2,820 million euro were not exposed to interest rate risk at 31 December 2017.

The Group has 5 forward start Interest Rate Swap derivative contracts outstanding (with start date in 3 years and maturity in 10 years from the start date) with 5 leading banks. These derivative contracts allow the Group to hedge a notional amount of 500 million euro.
The Group has tested the effectiveness of the outstanding derivatives and found that they qualify as hedging instruments.

To properly disclose interest rate risk as required by IFRS 7, the Company's outstanding contracts are shown below.

The following table breaks down the derivatives by maturity.

Thousands of euro	Notional		1 year	2 - 5 years	Beyond 5 years
	at 31.12.2017	at 31.12.2016			
Cash flow hedge derivatives					
Forward Start Interest Rate Swap	500,000	500,000	-	-	500,000
Total Interest Rate Derivatives	500,000	500,000	-	-	500,000

These contracts were entered into with a notional amount lower than the total to be refinanced and a maturity aligned with that of the underlying financial liability. Therefore, the change in the expected cash flows of these contracts is offset by a corresponding change in the expected cash flows of the underlying position.

The measurement of the change in the fair value of the hedging derivative and that of the hypothetical derivative is determined by the fluctuation in the interest rate curve occurred since the inception of the instrument (Cumulative Based Test). The present value of the expected future cash flows of the outstanding derivatives is calculated based on the relevant interest rate curves received from a leading financial information provider (Telerate).

The outstanding derivatives can be measured using the inputs (interest rates) that are directly observable in the active interest rate market (Level 2 of the fair value hierarchy as per IFRS 13).

Therefore, the fair value of financial derivatives generally reflects the estimated amount the Company would pay or receive should it terminate the contracts at the reporting date.

The following table shows the notional amount and fair value of the interest rate derivatives at 31 December 2017.

Thousands of euro	Notional		Fair value		Fair value asset		Fair value liability	
	at 31.12.2017	at 31.12.2016	at 31.12.2017	at 31.12.2016	at 31.12.2017	at 31.12.2016	at 31.12.2017	at 31.12.2016
Cash flow hedge derivatives								
Forward Start Interest Rate Swap	500,000	500,000	20,984	17,393	20,984	17,393	-	-
Total Interest Rate Derivatives	500,000	500,000	20,984	17,393	20,984	17,393	-	-

Finally, the fair value of the above derivatives, assuming a 0.10% negative or positive shock in the relevant interest rate curves, is shown below.

Thousands of euro	Notional		-0,10%	Fair Value	+0,10%	-0,10%	Fair Value	+0,10%
	at 31.12.2017	at 31.12.2016		at 31.12.2017			at 31.12.2016	
Cash flow hedge derivatives								
Forward Start Interest Rate Swap	500,000	500,000	16,213	20,984	25,692	12,601	17,393	22,102
Total	500,000	500,000	16,213	20,984	25,692	12,601	17,393	22,102

Significant events after the reporting period

On 1 January 2018, the merger of the subsidiary Genia Distribuzione S.p.A was completed. As from this date, 2i Rete Gas S.p.A., therefore, directly manages also the concession in San Giuliano Milanese.

On 2 January 2018, 2i Rete Gas S.p.A., implementing the resolution of the Board of Directors dated 13 November 2017, made a capital contribution of 730,000 thousand euro to the subsidiary 2i Rete Gas S.r.l. so that the subsidiary had the necessary liquidity to be able to proceed with the acquisition of Nedgia S.p.A., a company working in gas distribution mainly in Apulia and Sicily, from the Gas Natural Fenosa Group. The transaction was completed by the subsidiary in February as soon as the necessary approval was received from the Italian Competition Authority.

V Report of the Board of Statutory Auditors

2i RETE GAS S.P.A.
****
STATUTORY AUDITORS REPORT ON CONSOLIDATED FINANCIAL STATEMENTS AS OF 31.12.2017
****

To the Shareholders.

The Board of Directors has given to this Board the consolidated financial statements of the 2i Rete Gas Group.

The consolidated financial statements for the year ended 31 December 2017 has been prepared in accordance with accounting policies and measurement criteria established by the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and adopted by the European Commission under the procedure art. 6 of Regulation (EC) No. 1606/2002 of the European Parliament and of the Council of 19 July 2002 and, where applicable, by the rules of the Civil Code.

Pursuant to art. 37 of Legislative Decree No. 39 of 27/10/2010 audit procedures have been entrusted to PRICEWATERHOUSECOOPERS SpA which has not reported to the Board of Statutory Auditors critical or important events that are reprehensible as to the content of the consolidated financial statements.

The consolidated financial statements for the year 2017 include 4 companies, including 2i Rete Gas SpA.

The consolidation perimeter consists of the following companies:

- 2i Rete Gas S.p.A.
- 2i Rete Gas S.r.l.
- Genia Distribuzione S.r.l.

- 2i Rete Gas Impianti S.r.l.

The criteria for consolidation are contained in section 6 of the notes to the consolidated financial statements for 2017.

The financial statements of subsidiaries, consolidated by the 2i Rete Gas Group, were prepared, in each accounting period, following the same accounting principles of the parent company and using, where applicable, the financial statements of companies approved by the respective shareholders or, failing that, on the basis of financial statements approved by the respective governing bodies.

The Consolidated Financial Statements consist of the Balance Sheet, Income Statement and Notes to the Consolidated Financial Statements, and is presented with a Management report and summarizes the following results, expressed in thousands of Euros:

Thousands of euro	31.12.2017	31.12.2016
Revenue		
Revenue from sales and services	600,313	598,654
Other revenue	190,395	124,748
Revenue from intangible assets / assets under construction	238,065	207,061
Sub-Total	**1,028,773**	**930,463**
Costs		
Raw materials and consumables	79,026	83,547
Services	239,096	207,619
Personnel costs	110,257	118,303
Amortisation, depreciation and impairment losses	161,203	155,920
Other operating costs	193,201	121,670
Capitalised costs for internal work	(1,099)	(234)
Sub-Total	**781,684**	**686,826**
EBIT	**247,089**	**243,637**
Income / (expenses) from equity investments	87	171
Financial income	769	214
Financial expenses	(73,855)	(47,810)
Sub-Total	**(72,998)**	**(47,426)**
Pre-tax income	**174,091**	**196,211**
Taxes	52,466	66,747
Net income from continuing operations	**121,624**	**129,464**
Net income from discontinued operations	-	-
NET INCOME FOR THE YEAR	**121,624**	**129,464**

Thousands of euro	31.12.2017	31.12.2016
ASSETS		
Non-current assets		
Property, plant and equipment	37,458	37,780
Intangible assets	2,937,360	2,862,738
Net deferred tax assets	73,360	68,027
Equity investments	3,070	3,375
Non-current financial assets	22,180	18,756
Other non-current assets	51,796	45,051
	3,125,224	**3,035,727**
Current assets		
Inventories	19,008	20,293
Trade receivables	273,880	234,104
Short-term financial receivables	8	917
Other current financial assets	9	14
Cash and cash equivalents	816,138	183,197
Income tax receivables	19,358	8,196
Other current assets	172,370	181,053
	1,300,772	**627,773**
Non-current assets (or assets included in disposal groups) held for sale		
Non-current assets (or assets included in disposal groups) held for sale	2,141	-
	2,141	**-**
TOTAL ASSETS	**4,428,137**	**3,663,499**

Thousands of euro	31.12.2017	31.12.2016
EQUITY AND LIABILITIES		
Equity - Owners of the Parent		
Share capital	3,639	3,639
Treasury shares	-	-
Other reserves	510,161	507,237
Retained earnings (accumulated losses)	124,508	80,076
Net income for the year	121,624	129,464
Total equity - Owners of the Parent	**759,932**	**720,416**
Equity - non-controlling interests		
Non-controlling interests	-	-
Net income for the year - non-controlling interests	-	-
Total equity - non-controlling interests	**-**	**-**
TOTAL EQUITY	**759,932**	**720,416**
Non-current liabilities		
Long-term loans	2,806,984	2,148,424
Post-employment and other employee benefits	46,036	48,086
Provision for risks and charges	9,870	13,586
Deferred tax liabilities	-	-
Non-current financial liabilities	-	-
Other non-current liabilities	311,429	303,120
	3,174,319	**2,513,217**
Current liabilities		
Short-term loans	-	-
Short-term bank loans	-	-
Current portion of long-term provisions and short-term provisions	76,387	71,084
Trade payables	208,103	166,737
Income tax payables	24	13,932
Current financial liabilities	19,559	21,099
Other current liabilities	187,482	157,013
	491,555	**429,866**
Non-current liabilities (or liabilities included in disposal groups) held for sale		
Non-current liabilities (or liabilities included in disposal groups) held for sale	2,332	-
	2,332	**-**
TOTAL LIABILITIES	**3,668,206**	**2,943,083**
TOTAL EQUITY AND LIABILITIES	**4,428,137**	**3,663,499**

The Board of Statutory Auditors has verified that the Consolidated financial statements are consistent with the facts and information that it has been made aware of by participating to the corporate bodies meetings, the exercise of its supervisory duties and its powers of inspection and control.

Finally, the Board acknowledges that it has verified the compliance and consistency of the Management report with the data and results of the consolidated financial statements.

Milan, April 6, 2018

Board of Statutory Auditors

Dott. Marco Antonio Dell'Acqua (Presidente)
(Signed on the original)

Dott. Marco Giuliani (Member)
(Signed on the original)

Prof. Gianluigi Gola (Member)
(Signed on the original)

VI Report of the Independent Auditors

2i Rete Gas SpA

Independent auditor's report

in accordance with article 14 of Legislative Decree 39 of 27 January 2010 and article 10 of Regulation (EU) 537/2014

Consolidated financial statements as of 31 December 2017

Independent auditor's report

in accordance with article 14 of Legislative Decree 39 of 27 January 2010 and article 10 of Regulation (EU) 537/2014

To the shareholders of 2i Rete Gas SpA

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of 2i Rete Gas SpA and its subsidiaries (2i Rete Gas group), which comprise the statement of financial position as of 31 December 2017, the income statement, the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and the notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the financial position of 2i Rete Gas group as of 31 December 2017, and of the result of its operations and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union, and with the regulations issued to implement article 9 of Legislative Decree 38/05.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISA Italia).
Our responsibilities under those standards are further described in section Auditor's Responsibilities for the Audit of the Consolidated Financial Statements of this report. We are independent of 2i Rete Gas SpA (the Company) based on ethic and independence regulations and standards applicable to audits of financial statements under Italian law. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key Audit Matters	***How our audit addressed the key audit matter***
Capital expenditure for gas distribution network under service concession agreements *Note 12 of the Annual Financial Report – consolidated accounts - intangible assets* As of 31 December 2017 gas distribution service concessions and similar rights amount to € 2,736 million, representing the 62% of total assets. Costs capitalised during the year amount to € 235 million. The group operates in the gas distribution industry. The industry is regulated by the Italian Regulatory Authority for Energy, Networks and Environment (ARERA). Revenue from gas distribution activities are determined each year in accordance with the regulatory approved tariffs which are based on a pre-established return on capital invested, plus amortisation and depreciation and operating costs. Considering the magnitude of the capital expenditure made by the group, the proper capitalisation of costs related to service concession agreements in accordance with IFRIC12 represented a key matter in the audit of the consolidated financial statements.	We performed an understanding and evaluation of the system of internal control over the capital expenditure cycle, with particular reference to identification and testing of key controls. We assessed the accounting policy adopted by the group in relation to the capitalisation of costs. We performed detailed tests analysing, on a sample basis, the supporting documentation of costs capitalised to verify the accuracy, completeness and the proper period.

Key Audit Matters	*How our audit addressed the key audit matter*
Provisions for risks and charges	
Note 27 of the Annual Financial Report – consolidated accounts section - provisions for risks and charges As of 31 December 2017 provisions for risks and charges amount to € 86 million and include probable liabilities as a result of past events for which the outflow can be reasonably estimated at the balance sheet date. Provisions for risks and charges mainly relate to costs associated with various disputes with municipalities, costs that could potentially arise from maintenance or replacement of defective measurement equipment, as well as the risk of a revision of some tariffs for concessions owned by third parties. Given the magnitude of the accrued balances and the use of estimates made, the measurement of the provisions for risks and charges was a key audit matter for the audit of the consolidated financial statements.	We have carried out the understanding and valuation of key controls in place over the provisions for risks and charges measurement process. We have tested, on a sample basis, the documentation supporting the most significant accruals made to assess the adequacy of the provisions for risks and charges. We obtained written confirmations from the lawyers appointed by the group, indicating the individual positions in place and their assessment of the risk of potential liability. We discussed with management the conclusions reached on the criteria for quantifying the provisions for risks and charges. We verified the accuracy and completeness of the disclosure included in the notes to the consolidated financial statements.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union, and with the regulations issued to implement article 9 of Legislative Decree 38/05 and, in the terms prescribed by law, for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Management is responsible for assessing the group ability to continue as a going concern and, in preparing the consolidated financial statements, for the appropriate application of the going concern basis of accounting, and for disclosing matters related to going concern. In preparing the consolidated financial statements, management uses the going concern basis of accounting unless management intends either to liquidate 2i Rete Gas SpA or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing, in the terms prescribed by law, the group financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with International Standards on Auditing (ISA Italia) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

As part of an audit conducted in accordance with International Standards on Auditing (ISA Italia), we exercise professional judgment and maintain professional scepticism throughout the audit. Furthermore:

- we identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error; we design and perform audit procedures responsive to those risks; we obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- we obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the group internal control;
- we evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;
- we conclude on the appropriateness of management use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the group ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the group to cease to continue as a going concern;
- we evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation;
- we obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of

the group audit. We remain solely responsible for our audit opinion on the consolidated financial statements.

We communicate with those charged with governance, identified at an appropriate level as required by ISA Italia regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we complied with the regulations and standards on ethics and independence applicable under Italian law and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and, where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that are of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our report.

Additional Disclosures required by Article 10 of Regulation (EU) 537/2014

We were appointed by the shareholders of 2i Rete Gas SpA at the general meeting held on 29 April 2015 to perform the audit of the Company consolidated and separate financial statements for the years ending 31 December 2015 through 31 December 2023.

We declare that we did not provide any prohibited non-audit services referred to in article 5, paragraph 1, of Regulation (EU) 537/2014 and that we remained independent of the Company in conducting the audit.

We confirm that the opinion on the consolidated financial statements expressed in this report is consistent with the additional report to those charged with governance, in their capacity as audit committee, prepared pursuant to article 11 of the aforementioned Regulation.

Report on Compliance with other Laws and Regulations

Opinion in accordance with Article 14, paragraph 2, letter e), of Legislative Decree 39/10

Management of 2i Rete Gas SpA is responsible for preparing a report on operations of the 2i Rete Gas group as of 31 December 2017, including its consistency with the relevant consolidated financial statements and its compliance with the law.

We have performed the procedures required under auditing standard (SA Italia) 720B to express an opinion on the consistency of the report on operations with the consolidated financial statements of the 2i Rete Gas group as of 31 December 2017 and on its compliance with the law, as well as to issue a statement on material misstatements, if any.

In our opinion, the report on operations mentioned above is consistent with the consolidated financial statements of the 2i Rete Gas group as of 31 December 2017 and is prepared in compliance with the law.

With reference to the statement referred to in article 14, paragraph 2, letter e), of Legislative Decree 39/10, issued on the basis of our knowledge and understanding of the group obtained in the course of the audit, we have nothing to report.

Statement in accordance with article 4 of Consob Regulation implementing Legislative Decree 254 of 30 December 2016

Management of 2i Rete Gas SpA is responsible for the preparation of the non-financial disclosure pursuant to Legislative Decree 254 of 30 December 2016. We have verified that the non-financial disclosure was approved by the board of directors.

Pursuant to article 3, paragraph 10, of Legislative Decree 254 of 30 December 2016, the non-financial disclosure is subject to separate audit reporting by our firm.

Milan, 5 April 2018

PricewaterhouseCoopers SpA

Signed by

Paolo Caccini
(Partner)

This report has been translated into English from the Italian original solely for the convenience of international readers

VII Statutory financial statements of 2i Rete Gas S.p.A.

1. Income Statement

Euro	Notes	31.12.2017	of which from related parties	31.12.2016	of which from related parties
Revenue					
Revenue from sales and services	5.a	593,267,089		591,941,240	682
Other revenue	5.b	191,692,828	1,463,138	128,052,218	4,043,577
Revenue from intangible assets / assets under construction	5.c	237,003,541		204,060,068	
Sub-Total		**1,021,963,458**		**924,053,526**	
Costs					
Raw materials and consumables	6.a	78,963,585		83,525,121	
Services	6.b	235,573,744	746,379	203,960,145	1,421,477
Personnel Costs	6.c	110,157,303	1,818,658	118,185,026	2,605,470
Amortisation, depreciation and impairment losses	6.d	159,908,885		154,265,697	
Other operating costs	6.e	192,733,321	426,159	121,350,916	422,133
Capitalised costs for internal work	6.f	(1,092,718)		(233,600)	
Sub-Total		**776,244,121**		**681,053,304**	
EBIT		**245,719,337**		**243,000,222**	
Income / (expenses) from equity investments	7	206,609	173,556	129,449	100,000
Financial income	8	782,373	13,673	220,141	6,673
Financial expenses	8	(73,891,029)	(37,070)	(47,836,440)	(27,598)
Sub-Total		**(72,902,047)**		**(47,486,850)**	
Pre-tax income		**172,817,290**		**195,513,372**	
Taxes	9	52,089,378		66,500,181	
Net income from continuing operations		**120,727,912**		**129,013,192**	
Net income from discontinued operations	10	-		-	
NET INCOME FOR THE YEAR		**120,727,912**		**129,013,192**	

2i Rete Gas S.p.A.
The Chief Executive Officer
Michele Enrico De Censi

2. Statement of Comprehensive Income

Euro	31.12.2017	31.12.2016
Net income recognised through profit or loss	**120,727,912**	**129,013,192**
Other comprehensive income		
Items which will never be reclassified through profit/(loss):		
Revaluations of net liabilities/assets for defined benefits	291,599	(1,589,016)
Deferred tax assets and liabilities on items which will never be classified through profit / (loss)	(83,322)	453,002
	208,277	(1,136,014)
Items which may be reclassified subsequently through profit/(loss):		
Change in fair value of hedging derivatives	3,590,669	17,393,386
Change in fair value of hedging derivatives reclassified in the income for the year	-	-
Deferred tax (assets)/liabilities from change in fair value	(861,760)	(4,174,413)
Deferred tax (assets)/liabilities from change in fair value of hedging derivatives reclassified in the income for the year	-	-
	2,728,908	13,218,973
Total other comprehensive income	**2,937,185**	**12,082,960**
Total comprehensive income / (loss) recognised in the year	**123,665,097**	**141,096,152**

2i Rete Gas S.p.A.
The Chief Executive Officer
Michele Enrico De Censi

3. Statement of Financial Position

Assets

Euro	Notes				
ASSETS		**31.12.2017**	**of which from related parties**	**31.12.2016**	**of which from related parties**
Non-current assets					
Property, plant and equipment	11	37,430,474		37,749,187	
Intangible assets	12	2,922,737,865		2,847,651,476	
Net deferred tax assets	13	72,701,248		67,527,201	
Equity investments	14	15,053,260	14,536,184	18,270,887	17,753,810
Non-current financial assets	15	22,179,891		18,755,512	
Other non-current assets	16	51,701,595		44,968,174	
	Total	**3,121,804,333**		**3,034,922,436**	
Current assets					
Inventories	17	18,964,188		20,193,273	
Trade receivables	18	272,271,718	1,736,660	233,174,413	3,334,872
Short-term financial receivables	19	2,529,500	2,521,373	1,716,564	899,846
Other current financial assets	20	8,704		13,525	
Cash and cash equivalents	21	815,062,866		181,883,225	
Income tax receivables	22	19,456,277	98,469	8,569,094	373,595
Other current assets	23	169,095,616	5,842	178,741,664	5,842
	Total	**1,297,388,867**		**624,291,758**	
Non-current assets (or assets included in disposal groups) held for sale					
Non-current assets (or assets included in disposal groups) held for sale	37	2,140,962		-	
	Total	**2,140,962**		**-**	
TOTAL ASSETS		**4,421,334,162**		**3,659,214,195**	

2i Rete Gas S.p.A.
The Chief Executive Officer
Michele Enrico De Censi

Liabilities

Euro	Notes				
EQUITY AND LIABILITIES		**31.12.2017**	**of which from related parties**	**31.12.2016**	**of which from related parties**
Equity	24				
Share Capital		3,638,517		3,638,517	
Treasury Shares		-		-	
Other Reserves		510,139,777		507,202,591	
Retained earnings / (accumulated losses)		123,775,746		79,794,687	
Net income for the year		120,727,912		129,013,192	
TOTAL EQUITY		**758,281,951**		**719,648,987**	
Non-current liabilities					
Long-term loans	25	2,806,984,124		2,148,424,082	
Post-employment and other employee benefits	26	45,994,797		48,045,657	
Provision for risks and charges	27	9,857,340		13,505,647	
Deferred tax liabilities	13	-		-	
Non-current financial liabilities	28	-		-	
Other non-current liabilities	29	310,312,271		302,119,442	10,150
	Total	**3,173,148,532**		**2,512,094,827**	
Current liabilities					
Short-term loans	30	5,867,466	5,867,466	4,194,405	4,194,405
Short-term bank loans	31	-		-	
Short-term portion of long-term and short-term provisions	32	75,921,249		70,958,451	
Trade payables	33	202,088,226	780,145	162,164,908	1,605,534
Income tax payables	34	61,125	61,125	13,888,568	
Current financial liabilities	35	19,558,721		21,099,092	
Other current liabilities	36	184,074,556		155,164,955	630,273
	Total	**487,571,344**		**427,470,381**	
Non-current liabilities (or liabilities included in disposal groups) held for sale					
Non-current liabilities (or liabilities included in disposal groups) held for sale	37	2,332,336		-	
	Total	**2,332,336**		**-**	
TOTAL LIABILITIES		**3,663,052,211**		**2,939,565,208**	
TOTAL EQUITY AND LIABILITIES		**4,421,334,162**		**3,659,214,195**	

2i Rete Gas S.p.A.
The Chief Executive Officer
Michele Enrico De Censi

4. Statement of Cash Flows

Euro		31.12.2017	31.12.2016
A) CASH AND CASH EQUIVALENTS - OPENING BALANCE	**21**	**181,883,225**	**157,941,449**
A) CASH AND CASH EQUIVALENTS ACQUIRED THROUGH COMPANY ACQUISITION			**924,369**
Cash flow from operating activities			
Pre-tax income		172,817,290	195,513,372
Taxes for the period	9	(52,089,378)	(66,500,181)
Net income from discontinued operations	10	-	-
1. Net income for the year		**120,727,912**	**129,013,192**
Adjustments for:			
Depreciation / Amortisation	6.d	156,852,731	152,446,046
Write-downs / (Write-ups)	6.d	3,056,154	1,819,651
Capital (gains) / losses	5.b/6.e	19,087,345	11,125,181
Allocations to provisions for risks and charges and post-employment benefits	6.c/6.e	11,427,049	20,452,061
Financial (income) / expenses	7 e 8	72,902,047	47,486,850
2.Total adjustments		**263,325,326**	**233,329,789**
Change in net working capital			
Inventories	17	1,229,085	(6,394,568)
Trade receivables	18	(41,241,885)	4,283,511
Trade payables	33	42,255,653	(5,941,961)
Other current assets	23	8,326,048	(33,533,472)
Other current liabilities	36	28,909,601	(14,446,903)
Net tax receivables / (payables)	22 and 34	(24,714,626)	14,063,563
Increase / (decrease) in provisions for risks and charges and post-employment benefits	26, 27 and 32	(11,871,819)	(10,317,060)
Increase / (decrease) in provisions for deferred tax assets and liabilities	13	(6,252,800)	(2,625,337)
Other non-current assets	16	(6,733,421)	(12,920,395)
Other non-current liabilities	29	8,192,829	6,873,852
Financial income / (expenses) other than for financing	8	(281,962)	(1,064,812)
3. Total change in net working capital		**(2,183,296)**	**(62,023,582)**
B) CASH FLOW FROM OPERATING ACTIVITIES (1+2+3)		**381,869,942**	**300,319,399**
Cash flow (used in) / generated by investing activities			
Net fixed assets		(252,306,617)	(225,802,821)
Equity investments	7 and 14	3,424,236	129,449
From discontinued operations		0	55,579
C) CASH FLOW (USED IN) / GENERATED BY INVESTING ACTIVITIES		**(248,882,381)**	**(225,617,793)**
D) FREE CASH FLOW (B+C)		**132,987,561**	**74,701,606**
Cash flow from financing activities			
Payment of dividends		(85,032,133)	(85,032,133)
Change in amortised cost	15, 25 and 31	(1,201,585)	6,550,538
Financial income for financing activities	8	68,625	136,051
Financial (expenses) for financing activities	8	(72,895,320)	(46,687,538)
Change in bank net debt	25 and 30	1,673,061	4,186,402
New loan	25	155,000,000	70,000,000
Receipts from bond issues	25	1,165,000,000	-
Debenture loan settlements	25	(660,107,000)	
Other non-current financial assets	15	34,918	153,663
Change in other financial receivables	19 and 20	(808,114)	(696,423)
Change in other current financial payables	35	(1,540,371)	(294,758)
E) CASH FLOW FROM FINANCING ACTIVITIES		**500,192,080**	**(51,684,198)**
F) CASH FLOW FOR THE PERIOD (D+E)		**633,179,641**	**23,017,408**
G) CASH AND CASH EQUIVALENTS - CLOSING BALANCE	**21**	**815,062,866**	**181,883,225**

2i Rete Gas S.p.A.
The Chief Executive Officer
Michele Enrico De Censi

5. Statement of Changes in Equity

CORRETTA

Euro	Share Capital	Share premium reserve	Legal Reserve	Reserves for valuation of derivatives	Other reserves	Retained earnings (accumulated losses)	Net income for the year	Total
	Share capital and reserves							
Total 31 December 2015	**3,638,517**	**286,546,491**	**727,703**	**-**	**207,066,095**	**77,913,234**	**86,913,586**	**662,805,626**
Allocation of income for 2015:								
Distribution of income						86,913,586	(86,913,586)	**-**
Payment of dividends						(85,032,133)		**(85,032,133)**
Total contribution from shareholders and payments to them as shareholders								*(85,032,133)*
- Other changes (merger of GP GAS)					779,342			**779,342**
Net income for the year recognised in equity				13,218,973	(1,136,014)			**12,082,960**
Net income for the year recognised through profit or loss							129,013,192	**129,013,192**
Total 31 December 2016	**3,638,517**	**286,546,491**	**727,703**	**13,218,973**	**206,709,423**	**79,794,687**	**129,013,192**	**719,648,986**
Allocation of income for 2016:								
Distribution of income						129,013,192	(129,013,192)	**-**
Payment of dividends						(85,032,133)		**(85,032,133)**
Total contribution from shareholders and payments to them as shareholders								*(85,032,133)*
Net income for the year recognised in equity				2,728,908	208,277			**2,937,185**
Net income for the year recognised through profit or loss							120,727,912	**120,727,912**
Total 31 December 2017	**3,638,517**	**286,546,491**	**727,703**	**15,947,882**	**206,917,700**	**123,775,746**	**120,727,912**	**758,281,951**

2i Rete Gas S.p.A.
The Chief Executive Officer
Michele Enrico De Censi

6. Notes to the Statutory Financial Statements of 2i Rete Gas S.p.A.

Format and contents of the Financial Statements

The company 2i Rete Gas S.p.A., operating in the gas distribution sector, is a public limited company and is located in Milan, Via Alberico Albricci, 10.

The territorial structure of the Company consists of six departments.
The departmental offices are:

- North West Department - Via Gazzoletto, 16/18 - 26100 Cremona (province of Cremona)
- North Department - Via Francesco Rismondo, 14 - 21049 Tradate (province of Varese)
- North East Department - Via Serassi, 17/Rs - 24124 Bergamo (province of Bergamo)
- Central Department - Via Morettini, 39 - 06128 Perugia (province of Perugia)
- South-West Department - Via Paul Harris, 63 - 81100 Caserta (province of Caserta)
- South East Department - Via Enrico Mattei - 72100 Brindisi (province of Brindisi)

The Directors of 2i Rete Gas S.p.A., on 23 March 2018, approved these consolidated financial statements and agreed to make them available to Shareholders within the deadlines set forth in art. 2429 of the Italian Civil Code.
For the purposes of IAS 10.17, the date taken into consideration by the Directors in preparing the financial statements is 23 March 2018.
These consolidated financial statements are audited by PricewaterhouseCoopers S.p.A.

Compliance with IFRS/IAS

The statutory financial statements for the year ended 31 December 2017 have been prepared in compliance with the International Financial Reporting Standards (IAS/IFRS) issued by the International Accounting Standards Board (IASB), as endorsed by the European Union pursuant to Regulation (EC) No. 1606/2002 and effective at the end of the year, the related SIC/IFRIC interpretations issued by the Interpretation Committee, in force at the same date. The above standards and interpretations are hereinafter referred to as “IFRS-EU”.

Reporting and valuation criteria

The statutory financial statements consist of the Income statement, the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Changes in Equity, the Statement of Cash Flows and the related Notes. The financial statements are presented in euro and the values shown in the Notes to the statutory financial statements are expressed in thousands of euro.

The reporting and valuation criteria are the same as those adopted to draw up the Consolidated annual financial report, to which reference should be made, except as indicated hereafter.

In the statutory financial statements, equity investments in subsidiaries, jointly controlled companies and associates are valued at purchase cost.

When there is objective evidence of impairment, the recoverability is checked by comparing the carrying value with the recoverable value represented by the greater of the fair value, net of disposal costs, and the value in use. Should the grounds which caused the impairment no longer exist, the value of the equity investment is restated, up to the limits of the original cost.

The dividends received by subsidiaries and associates are recognised through profit or loss.

Information on the Income Statement

Revenue

The transport of methane gas takes place exclusively within Italy.

5.a Revenue from sales and services – 593,267 thousand euro

"Revenue from sales and services" amounted to 593,267 thousand euro and mainly referred to gas transport operations and connection fees.

Here is the breakdown of "Revenue from sales and services":

Thousands of euro	31.12.2017	31.12.2016	2017 - 2016
Sales and services			
Third parties:			
Gas and LPG transport	557,274	554,216	3,058
Provision for risks	(1,767)	(2,666)	899
Connection fees	8,852	13,433	(4,580)
Ancillary fees	5,741	5,974	(233)
Revenue from the sale of water	1,188	1,818	(630)
Ancillary services - water sector	296	240	56
Revenue from customer operations	245	43	202
Revenue from purification/sewage management	226	749	(523)
Sundry revenue and other sales and services	21,211	18,134	3,077
Total revenue from sales and services	**593,267**	**591,941**	**1,326**

Revenue from gas transport totalled 557,274 thousand euro and mainly refer to the 2016 Tariff Revenue Cap for natural gas and LPG.
This figure was calculated following publication of ARERA Resolution 367/2014/R/gas which indicated the means for calculating the tariffs for the fourth regulatory period. Net of the effect of the further allocation to the provision for risks regarding a possible tariff review of some concessions where there are plants partly owned by third parties, the item in question rose by 3,957 thousand euro in the year, with a positive difference of 3,058 thousand euro caused exclusively by the increase in the Tariff Revenue Cap.

Connection fees, which totalled 8,852 thousand euro, fell by 4,580 thousand euro compared to the previous year due to a review of the measurement method adopted in the year in order to better illustrate the correlation between fees and assets.
The connection fee is indeed an amount defined through a specific quotation according to the type of service requested and consists of:

- the cost of the material required;
- labour costs;
- the percentage amount for the coverage of overheads.

Unlike the previous year, in order to ensure a better representation of the correlation between the invoiced fee and the asset to which it refers, since 2017, it has been agreed not to separate the share of the fee which was calculated to cover overhead costs, but to proceed to the total allocation of the fee to capitalised costs, thus deferring the whole sum on the basis of the length of the amortisation of the asset.

Revenue from the sale of water (1,955 thousand euro overall) were influenced by the gradual disposal in water concessions.

“Sundry revenue and other sales and services” included revenue associated with the suspension and reactivation of customers in arrears at the request of the sales companies, which totalled around 6,304 thousand euro (6,346 thousand euro in the prior year), as well as 9,706 thousand euro in revenue relating to the TCol tariff component, compared to 9,984 thousand euro in the previous year.
Revenue from readings rose by 4,163 thousand euro owing to Resolution 102/2016/R/com and the related revenue recognised to distributors for the reading of meters during the transfer phase.

5.b Other revenue – 191,693 thousand euro

“Other revenue” totalled 191,693 thousand euro (128,052 thousand euro in 2016), increasing by 63,641 thousand euro, and are broken down as follows:

Thousands of euro

	31.12.2017	31.12.2016	2017 - 2016
Other revenue			
Third parties:			
Revenue from energy efficiency certificates	161,447	90,802	70,645
Revenue from plant contributions	2,264	2,260	5
Contingent assets	1,681	820	861
Revenue from Resolution 574/13	14,042	15,111	(1,069)
Rental income	695	2,172	(1,477)
Capital gains from assets	1,302	5,405	(4,104)
Compensation for damages	102	889	(787)
Other revenue and income and services	8,715	7,029	1,687
Group companies:			
Other revenue and services	1,445	3,565	(2,120)
Total other revenue	**191,693**	**128,052**	**63,641**

The most important values under Other Revenues are largely due to the revenues from energy efficiency certificates purchased in the year and which will be “cancelled” (or redelivered against payment to ARERA) in May 2018 on the basis of the annual targets which ARERA itself sets.
Revenue from energy efficiency certificates refers to the achievement of the 2016 target and partial achievement the specific energy saving target for 2017. In relation to the 2017 target, it is necessary to have cancelled at least 60% of the certificates requested by May 2018.
2i Rete Gas S.p.A., at the reporting date, believes that there will be no problems in achieving the targets in compliance with relevant laws and regulations.
The steady increase in revenue from energy efficiency certificates was the result of the Company’s efforts to reach the targets ahead of the May 2018 deadline, as well as, and most importantly, the rising market prices, which significantly affected purchases in the second half of the year.
This item must in any case be read in light of the costs the Company incurred to purchase the energy efficiency certificates, which appear in the financial statements under “Other costs”.

As in previous years, revenue as per Resolution 574/2013/R/gas concerning the quality of gas distribution and metering services testifies to the Company's focus on the technical quality of its services. The result depends on both the number of gas chromatography tests undertaken by the distributor (a parameter which the Company can control) and on the fall in leaks at the distributor’s plant (a parameter which cannot be governed directly by the distributor except through continuous monitoring).

Capital gains from assets, which last year included a significant amount relating to the settlement of the dispute over the so-called “Lariano Triangle” and the end of two concessions (Caronno Varesino and Paderno Dugnano), fell by 4,104 thousand euro due to the lower level of disposals, which in the year regarded solely some minor water concessions.

“Other revenue and income and services” were up 1,687 thousand euro largely because of the increase in revenue from operations with defaulting end customers, whose administrative management was delegated to the gas distributor.

Finally, “Other revenues and services” referred to intercompany balances concerning a series of services that the Parent Company provides to its two main subsidiaries, Genia Distribuzione S.r.l. and 2i Rete Gas S.r.l.

5.c Revenue from intangible assets / assets under construction – 237,004 thousand euro

Thousands of euro

	31.12.2017	31.12.2016	2017 - 2016
Revenue from intangible assets / assets under construction			
Revenue from intangible assets / assets under construction	237,004	204,060	32,943
Total revenue from intangible assets / assets under construction	**237,004**	**204,060**	**32,943**

As from 1 January 2010, the Company has been recognising this revenue pursuant to IFRIC 12 “Service Concession Arrangements”.

Revenue from intangible assets and assets under construction represents the proportion of revenue directly attributable to the construction and enhancement of gas distribution networks held under concession. Since it is not possible to identify is revenue is estimated to as the extent of on terms of gross margin.

Costs

As already noted, all costs recognised under the accounting model as per IFRIC 12 are broken down by nature within the pre-existing cost items.
The following table provides a summary of the items relating to the Company’s operating costs in order to ensure their compliance with the aforementioned standard.

Thousands of euro

	31.12.2017	31.12.2016	2017 - 2016
Costs relating to revenue from intangible assets / assets under construction			
Raw materials and consumables	4,989	4,396	593
Costs for services	109,683	80,467	29,216
Other operating costs	801	586	215
Capitalised costs for materials, personnel and services	121,531	118,610	2,920
Total costs relating to revenue from intangible assets / assets under construction	**237,004**	**204,060**	**32,944**

6.a Raw materials and consumables – 78,964 thousand euro

“Costs of raw materials and consumables” and the changes thereto compared to the previous year are detailed below:

Thousands of euro	31.12.2017	31.12.2016	2017 - 2016
Raw materials and consumables			
Third parties:			
Costs for the purchase of gas, water and lubricants	2,784	2,877	(93)
Stationery and printed materials	193	264	(70)
Various materials	74,757	86,779	(12,022)
(Change in inventories of raw materials)	1,229	(6,395)	7,624
Total costs of raw materials and consumables	**78,964**	**83,525**	**(4,562)**
- of which capitalised for intangible assets	73,160	75,615	(2,456)

”Costs of raw materials and consumables” essentially comprise the cost for the purchase of the materials, fuel and lubricants used in the process of laying the pipes.

Compared to the previous year, there was a fall of 12,022 thousand euro in “various materials”, which was partially offset by the change in inventories in the year, arising from the trend in the installation of smart meters.

6.b Services – 235,574 thousand euro

“Costs for services” are broken down as follows:

Thousands of euro	31.12.2017	31.12.2016	2017 - 2016
Costs for services			
Third parties:			
Maintenance, repair and realisation of assets	103,450	78,015	25,435
Costs for electricity, power and water	3,182	3,257	(75)
Gas (for internal use)	3,274	3,302	(28)
Telephone and data transmission costs	2,180	2,816	(636)
Insurance premiums	4,216	4,842	(627)
Costs for services and other expenses relating to personnel	4,260	4,861	(602)
Fees	734	876	(141)
Legal and notary costs	2,156	2,219	(63)
Costs for company acquisitions and disposals	115	11	104
Staff and other services	-	5	(5)
Advertising	111	64	47
IT services	7,122	6,540	583
Meter reading service	6,431	5,210	1,221
Audit fees	530	372	158
Repairs and emergency service	4,897	4,852	44
Plant certifications Resolution 40	604	630	(26)
Gas transport by third parties	3,554	2,478	1,076
Professional and other services	7,771	4,638	3,132
Other costs for services	7,883	6,818	1,066
Group companies:			
Other costs for services	100	223	(123)
Costs for the use of third-party assets			
Third parties:			
Leases	4,976	5,547	(571)
Rentals	6,463	6,797	(334)
Other costs for the use of third-party assets	1,780	1,855	(75)
Fee for temporary occupation of public space (C.o.s.a.p.)	1,227	1,250	(22)
Municipal gas concession fees	58,557	56,482	2,075
Total costs for services	**235,574**	**203,960**	**31,614**
- of which capitalised for intangible assets	109,683	80,467	29,216

The aggregate figure of costs for services (also including costs for the use of third-party assets) grew compared to the previous year (203,960 thousand euro) due to these factors:

- 25,435 thousand euro rise resulting from the increased major maintenance activity by third parties on our distribution networks;
- 738 thousand euro total decline in the costs for utilities (electricity, water, gas, phone) following the further optimisation in the use of resources;
- around 1,221 thousand euro total increase owing to the extra work, following Resolution 102/2016/R/com, in the meter reading and emergency service, to be related to the respective revenue;
- 3,132 thousand euro rise in costs for professional services for consulting services linked to the liability management exercise and to the preparation of plans and the financial structure to enable the Group to undertake the acquisitions completed in 2018;
- rental and lease costs were further down 571 thousand euro year-on-year thanks to the rationalisation of the Company's offices.
- 2,075 thousand euro increase in 2017 concession fees compared to the previous year, when the fee for the concession in Como had an impact on the accounts only as from the month of acquisition (April 2016).

In the year, capitalisation of this item rose by 29,216 thousand euro thanks to the extra work on networks and meters.

6.C Personnel costs – 110,157 thousand euro

Personnel costs are broken down as follows:

Thousands of euro

	31.12.2017	31.12.2016	2017 - 2016
Wages and salaries	81,866	82,666	(800)
Social security charges	24,340	25,807	(1,467)
Termination benefits	5,410	5,485	(75)
Asem/Fisde	1	5	(4)
Other personnel costs	(1,459)	534	(1,993)
Total personnel costs	**110,157**	**114,497**	**(4,340)**
Non-recurring personnel costs			**-**
Incentives lo leave	-	3,688	(3,688)
Total non-recurring personnel costs	**-**	**3,688**	**(3,688)**
Total personnel costs	**110,157**	**118,185**	**(8,028)**
- of which capitalised for intangible assets	**53,360**	**47,391**	**5,968**
- of which capitalised for other internal work	**2**	**-**	**2**

"Personnel costs" include all expenses incurred on an ongoing basis that, directly or indirectly, involve employees. They were down by 8,028 thousand euro.
The increase in capitalisation for intangible assets, which had a 5,968 thousand euro impact on profit, was essentially due to the significant efforts made in the year by in-house staff in installing new smart meters and replacing the obsolete network.
The table below shows employee changes in the year by category.

	Executives	Middle Managers	Office Employees	Manual Workers	Total
Personnel at 31 December 2016	**30**	**112**	**1,139**	**700**	**1,981**
Increase	-	2	15	-	**17**
Decrease	(4)	(7)	(40)	(20)	**(71)**
Change in category	4	(3)	(2)	1	**-**
Personnel at 31 December 2017	**30**	**104**	**1,112**	**681**	**1,927**

6.d Amortisation, depreciation and impairment losses – 159,909 thousand euro

Depreciation, amortisation and impairment losses totalled 159,909 thousand euro, against 154,266 thousand euro in the previous year.
It should be noted that, with the introduction of IFRIC 12, amortisation mainly concerns the rights over concessions in which the Company manages the gas distribution networks.
The increase in impairment losses, totalling 1,351 thousand euro, largely concerned the impairment of some receivables, as well as some minor impairment losses arising from the sale of properties the Company no longer uses.

This item is broken down as follows:

Thousands of euro

	31.12.2017	31.12.2016	2017 - 2016
Depreciation	4,916	5,001	(85)
Amortisation	151,937	147,445	4,492
Impairment losses:			
Impairment of tangible assets	76	210	(134)
Impairment of intangible assets	56	37	20
Write down of trade and other receivables	2,924	1,573	1,351
Total depreciation, amortisation and impairment losses	**159,909**	**154,266**	**5,643**

6.e Other operating costs – 192,733 thousand euro

“Other operating costs” were up 71,382 thousand euro, 72,195 thousand euro of which arose from the purchase of energy efficiency certificates. Their cost rose steadily during the whole course of 2017.
As for capital losses on the disposal of assets, the 4,443 thousand euro increase was the result of the replacement of conventional meters with smart ones in accordance with the relevant resolutions passed by ARERA, as well as the disposal of the obsolete network, whose characteristics are no longer in line with corporate standards.
Please note that part of the losses, where concerning meters that had not been fully amortised through tariffs at the date of their replacement, are repaid through tariffs based on yearly instalments.
For the details on the provisions for risks in 2016, see section 27 (Provisions for risks and charges) in these notes.

In detail, the costs were as follows:

Thousands of euro

	31.12.2017	31.12.2016	2017 - 2016
Other operating costs			
Third parties:			
Remuneration of statutory auditors and Supervisory Body	98	97	0
Remuneration of members of the Board of Directors	335	364	(29)
Association fees	432	413	19
Contribution to the Supervisory Authority	195	163	32
Compensation to customers	241	175	66
Municipal tax on property	448	464	(15)
CCIAA (chamber of commerce) fees and duties	496	455	41
Purchase of energy efficiency certificates	162,075	89,880	72,195
Tax on the occupation of public space (Tosap)	1,844	1,588	257
Capital losses on the disposal of assets	20,389	15,946	4,443
Capital losses on the sale of assets	-	584	(584)
Local and sundry taxes	983	1,017	(34)
Other costs	948	1,379	(431)
(Net) provision for risks and charges	4,249	8,825	(4,576)
Total other operating costs	**192,733**	**121,351**	**71,382**
- of which capitalised for intangible assets	801	586	215

6.f Capitalised costs for internal work – (1,093) thousand euro

Following the introduction of IFRIC 12, the costs directly related to construction work on the network under concession are no longer accounted for as capitalised costs for internal work. For this reason, the item now only includes those residual costs which can be capitalised but do not concern concessions. In the specific case, the value mainly refers to capitalisations of concentrators, equipment for the communication network of the new smart meters which are not part of the assets linked to the concessions.

7. Income/(Expenses) from equity investments – 207 thousand euro

The item in question includes the income from investments in subsidiaries, associates and other companies. 173 thousand euro of the item was due to the income from the sale of the subsidiary Italcogim Trasporto S.r.l., while the remainder was due to dividends from Azienda Valtellina e Valchiavenna S.p.A.

8. Financial income/(expenses) – (73,109) thousand euro

This item is broken down as follows:

Thousands of euro

	31.12.2017	31.12.2016	2017 - 2016
Financial income			
Third parties:			
- Interest income from loans to employees	1	1	-
- Interest income from current accounts and post office deposits	55	129	(74)
- Interest income from receivables from customers	83	45	37
- Other financial interest and income	630	38	592
Group companies:			
- Interest income	13	7	7
Total income	**782**	**220**	**562**
Financial expenses			
Third parties:			
- Interest expense on medium/long-term loans	4,055	983	3,071
- Other expense on medium/long-term loans from banks	520	1,164	(644)
- Financial expenses on debenture loans	62,782	37,304	25,477
- Financial expenses from amortised cost	5,493	7,208	(1,715)
- Interest expense on short-term bank loans	8	-	8
- Interest expense on current bank accounts	1	-	1
- Discounting of post-employment and other employee benefits	915	957	(42)
- Expense for discounting of payables	-	129	(129)
- Interests on taxes	2	1	1
- Other financial and interest expense	79	62	18
Group companies:			
- Interest expense	37	28	9
Total expenses	**73,891**	**47,836**	**26,055**
TOTAL FINANCIAL INCOME AND (EXPENSES)	**(73,109)**	**(47,616)**	**(25,492)**

Net financial expenses of 73,109 thousand euro were mainly due to the recognition in the year of the interests relating to the debenture loans and the related amortised cost. At 31 December 2017, the Company had 2,819,893 thousand euro in loans outstanding, including 2,394,893 thousand euro in the five instalments of the debenture loan issued between 2014 and 2017, as well as 425,000 thousand euro in three loans from the European Investment Bank.

Since 2014, the structure of the Company's debt has almost entirely moved to a fixed rate thanks to the debenture loan, lengthening the average duration of the existing debt and reducing the cost of the debt itself at the same time.

In the year, the Company completed an important liability management exercise which enabled it, through three subsequent issues, to buy back part of the short-term debenture loan and refinance it with longer expiries, benefiting, among other things, from an extremely limited cost of debt and actually hedging against the risk of a potential interest rate hike.

9. Taxes – 52,089 thousand euro

This item is broken down as follows:

Thousands of euro

	31.12.2017	31.12.2016	2017 - 2016
Current taxes			
Current income taxes: IRES	46,755	57,674	(10,918)
Current income taxes: IRAP	11,555	11,660	(106)
Total current taxes	**58,310**	**69,334**	**(11,024)**
Adjustments for income taxes relating to previous years			
Negative adjustments for income taxes relating to previous years	62	177	(114)
Positive adjustments for income taxes relating to previous years	(30)	(211)	181
Total adjustments for income taxes relating to previous years	**32**	**(34)**	**66**
Deferred and prepaid taxes			
Deferred taxes (use) / allocation	(2,100)	(3,143)	1,043
Prepaid taxes (allocation) / use	(4,152)	(817)	(3,336)
Total current deferred and prepaid taxes	*(6,253)*	*(3,960)*	*(2,293)*
Adjustments to deferred taxes of previous years due to tax rate change	-	(527)	527
Adjustments to prepaid taxes of previous years due to tax rate change	-	1,686	(1,686)
Total adjusted deferred and prepaid taxes	-	*1,160*	*(1,160)*
Total deferred and prepaid taxes	**(6,253)**	**(2,800)**	**(3,453)**
TOTAL TAXES	**52,089**	**66,500**	**(14,411)**

Income taxes for 2017 totalled 52,089 thousand euro, down 14,411 thousand euro year-on-year.

Specifically, taxes represent the recognition of the charge for current taxes for the year, including IRES of 46,755 thousand euro and IRAP of 11,555 thousand euro.

Deferred and prepaid taxes followed the normal course of the business.

For more in-depth notes on this item, reference should be made to the relevant section of the notes to the Statement of financial position.

The net adjustments to income taxes relating to previous years are positive in this year for 32 thousand euro; these adjustments arose following the definitive calculation of taxes during the payment in June 2017.

The tax impact of IRES for 2017 is equal to 27.1%.

The following table shows the reconciliation of the effective and theoretical tax rates, determined by applying the tax rate in force during the year to pre-tax profit, without taking into account the adjustments from previous years:

Thousands of euro	31.12.2017	31.12.2016
Pre-tax profit	172,817	195,513
Theoretical IRES taxes	**41,476**	**53,766**
Lower taxes:	15,065	20,218
- release of contributions taxed in prior years	1,916	1,423
- use of provisions	4,851	2,974
- release of provisions	980	1,213
- reversal of statutory amortisation / depreciation not deducted in prior years	3,474	4,260
- deducted tax amortisation	1,024	630
- deductible interest expense for previous years	0	4,410
- capital gains by instalments	17	1,289
- other	2,803	4,019
Higher taxes:	20,344	24,126
- allocations to provisions	6,984	7,985
- amortisation / depreciation on amounts that are not recognised for tax purposes	2,304	2,781
- statutory amortisation / depreciation exceeding the fiscal limits	8,855	10,179
- reversal of excess fiscal amortisation / depreciation deducted in prior years	820	1,003
- capital losses on the disposal / sale of assets	0	51
- capital gains by instalments	222	870
- partially deductible costs	413	550
- connection fees	27	24
- taxes	108	137
- others	613	545
Total current income taxes (IRES)	**46,755**	**57,674**
IRAP	11,555	11,660
Total deferred and prepaid taxes	**(6,253)**	**(2,800)**
TOTAL INCOME TAXES	**52,057**	**66,534**

10. Discontinued operations – 0 thousand euro

The result from discontinued operations was zero.

Information on the Statement of Financial Position

Assets

Non-current assets

11. Property, plant and equipment – 37,430 thousand euro

Following the introduction of IFRIC 12, property, plant and equipment include only those assets that are not related to gas distribution concessions. Such assets are now recognised as intangible.
The breakdown and changes in property, plant and equipment in 2016 and 2017 are shown below:

Thousands of euro	Land	Buildings	Plant and equipment	Industrial and commercial equipment	Other assets	Improvements to third-party assets	Fixed assets under construction and advances	Total
Historical cost	14,673	35,919	2,180	22,043	47,777	13,139	1,212	136,942
Accumulated depreciation	0	(25,514)	(1,545)	(20,060)	(40,402)	(8,678)	-	(96,198)
Balance at 31.12.15	**14,673**	**10,404**	**635**	**1,983**	**7,375**	**4,462**	**1,212**	**40,744**
Investments	-	65	1,191	329	1,918	146	36	3,686
Entry into service	-	1,106	-	-	-	109	(1,216)	-
Gross value	-	1,106	-	-	-	109	(1,216)	-
Acc. Depr.	-	-	-	-	-	-	-	-
Disposals	(846)	(608)	-	-	(16)	-	-	(1,470)
Gross value	(846)	(2,304)	-	(107)	(714)	-	-	(3,972)
Acc. Depr.	-	1,697	-	107	698	-	-	2,502
Reclassifications	-	-	-	-	-	-	-	-
Gross value	-	-	-	-	-	-	-	-
Acc. Depr.	-	-	-	-	-	-	-	-
Impairment losses	(210)	-	-	-	-	-	-	(210)
Gross value	(210)	-	-	-	-	-	-	(210)
Acc. Depr.	-	-	-	-	-	-	-	-
Depreciation	-	(1,033)	(89)	(684)	(2,144)	(1,051)	-	(5,001)
Total changes	**(1,056)**	**(469)**	**1,102**	**(355)**	**(242)**	**(795)**	**(1,180)**	**(2,995)**
Historical cost	13,617	34,786	3,371	22,265	48,981	13,395	32	136,446
Accumulated depreciation	0	(24,851)	(1,634)	(20,637)	(41,847)	(9,728)	-	(98,697)
Balance at 31.12.16	**13,617**	**9,935**	**1,737**	**1,628**	**7,134**	**3,666**	**32**	**37,749**
Investments	-	258	3,448	656	1,228	108	10	5,707
Entry into service	-	18	-	-	-	2	(20)	-
Gross value	-	18	-	-	-	2	(20)	-
Acc. Depr.	-	-	-	-	-	-	-	-
Disposals	(766)	(227)	-	-	-	-	-	(993)
Gross value	(766)	(1,458)	-	(264)	(1,227)	-	-	(3,716)
Acc. Depr.	-	1,231	-	264	1,227	-	-	2,722
Reclassifications	(40)	16	-	-	-	-	(16)	(40)
Gross value	(40)	16	-	-	-	-	(16)	(40)
Acc. Depr.	-	-	-	-	-	-	-	-
Impairment losses	(62)	(10)	-	-	-	-	(4)	(76)
Gross value	(62)	(50)	-	-	-	-	(4)	(116)
Acc. Depr.	-	39	-	-	-	-	-	39
Depreciation	-	(879)	(236)	(496)	(2,285)	(1,020)	-	(4,916)
Total changes	**(868)**	**(824)**	**3,211**	**160**	**(1,058)**	**(910)**	**(30)**	**(319)**
Historical cost	12,750	33,570	6,818	22,657	48,981	13,505	2	138,282
Accumulated depreciation	0	(24,459)	(1,870)	(20,869)	(42,905)	(10,748)	-	(100,851)
Balance at 31.12.17	**12,750**	**9,111**	**4,948**	**1,788**	**6,076**	**2,756**	**2**	**37,430**

At 31 December 2017, this line item included the 5,707 thousand euro increase in investments made during the year, which was offset by 993 thousand euro in disposals for the sale of unused properties, 116 thousand euro in impairment losses and reclassifications, and 4,916 thousand euro in depreciation charges.

The investment made in property, plant and equipment is broken down as follows:

Thousands of euro	31.12.2017	31.12.2016
Increases for internal services	1	-
Increases for materials	1,091	234
Increases for external acquisitions / services	4,615	3,452
Total	**5,707**	**3,686**

As part of the increases for acquisitions, in the year, Other Assets included a 795 thousand euro increase in costs incurred for the purchase of servers and personal computers, as well as 210 thousand euro due to the purchase of IT security equipment.
The increase in plant and equipment, on the other hand, was due to the installation of concentrators, data reception and transmission equipment which is part of the smart meter communication network and is excluded from the scope of application of IFRIC 12 since it is not recognised as service concession assets.

In compliance with the provisions of art. 10 of Italian Law No. 72/83, the historical figures (expressed in thousands of euro) for the monetary revaluations included in the asset categories and contained in the item in question and in that for intangible assets are broken down below:

LAND	
Revaluation Law 576/75	20
Revaluation Law 72/83	12
Revaluation Law 413/91	331
Revaluation Law 350/03	3,729
Total revaluations of land and buildings	**4,092**

LAND CONC	
Revaluation Law 576/75	1
Revaluation Law 72/83	15
Revaluation Law 413/91	0
Revaluation Law 350/03	77
Total revaluations of land and buildings	**93**

BUILDINGS	
Revaluation Law 576/75	19
Revaluation Law 72/83	5
Revaluation Law 413/91	440
Revaluation Law 350/03	5,766
Total revaluations of land and buildings	**6,230**

BUILDINGS CONC	
Revaluation Law 576/75	17
Revaluation Law 72/83	101
Revaluation Law 413/91	138
Revaluation Law 350/03	2,162
Total revaluations of land and buildings	**2,418**

PLANT AND EQUIPMENT CONC	
Revaluation Law 576/75	2,492
Revaluation Law 72/83	19,364
Revaluation Law 413/91	70
Revaluation Law 342/00	10,426
Revaluation Law 350/03	506,884
Total revaluations of plant and equipment	**539,236**

INDUSTRIAL AND COMMERCIAL EQUIPMENT	
Revaluation Law 576/75	1
Revaluation Law 72/83	10
Revaluation Law 350/03	6
Total revaluations of industrial and commercial equipment	**17**

OTHER ASSETS	
Revaluation Law 576/75	1
Revaluation Law 72/83	11
Revaluation Law 350/03	7
Total revaluations of other assets	**18**

12. Intangible assets – 2,922,738 thousand euro

Following the introduction of IFRIC 12, intangible assets include also those fixed assets related to gas distribution concessions.

The breakdown and changes in intangible assets in 2016 and 2017 are shown below:

Thousands of euro	Patent and intellectual property rights	Concessions and similar rights	Concessions and similar rights - Fixed assets under construction and advances	Fixed assets under construction and advances	Other intangible assets	Goodwill	Total
Historical cost	89,194	5,143,987	9,869	2,795	94,790	142,956	**5,483,590**
Accumulated amortisation	(78,910)	(2,569,503)	-	-	(59,124)		**(2,707,538)**
Balance at 31.12.2015	**10,283**	**2,574,483**	**9,869**	**2,795**	**35,666**	**142,956**	**2,776,052**
Merger contribution:	-	6,620	-	-	-	-	**6,620**
Gross value	-	10,912	-	-	-	-	**10,912**
Acc. Amort.	-	(4,292)	-	-	-	-	**(4,292)**
Investments	622	209,073	7,628	3,471	8,610	-	**229,404**
Entry into service	-	7,512	(7,512)	(2,553)	2,553	-	**-**
Gross value	-	7,512	(7,512)	(2,553)	2,553	-	**-**
Acc. Amort.	-	-	-	-	-	-	**-**
Decreases	-	(16,942)	(1)	-	-	-	**(16,943)**
Gross value	-	(53,553)	(1)	-	-	-	**(53,554)**
Acc. Amort.	-	36,611	-	-	-	-	**36,611**
Reclassifications	-	-	-	-	-	-	**-**
Gross value	-	-	-	-	-	-	**-**
Acc. Amort.	-	-	-	-	-	-	**-**
Impairment losses	-	(1)	(35)	-	-	-	**(37)**
Gross value	-	(3)	(35)	-	-	-	**(38)**
Acc. Amort.	-	2	-	-	-	-	**2**
Fixed assets classified as assets held for sale	-	-	-	-	-	-	**-**
Gross value	-	-	-	-	-	-	**-**
Acc. Amort.	-	-	-	-	-	-	**-**
Depreciation	(5,467)	(131,808)	-	-	(10,170)	-	**(147,445)**
Total changes	**(4,845)**	**74,455**	**80**	**918**	**993**	**-**	**71,600**
Historical cost	89,816	5,317,929	9,949	3,713	105,953	142,956	**5,670,314**
Accumulated amortisation	(84,377)	(2,668,991)	-	-	(69,294)	-	**(2,822,662)**
Balance at 31.12.2016	**5,438**	**2,648,938**	**9,949**	**3,713**	**36,658**	**142,956**	**2,847,651**
Investments	3,027	226,628	10,430	3,054	8,581	-	**251,721**
Entry into service	-	7,331	(7,114)	(3,451)	3,234	-	**-**
Gross value	-	7,331	(7,114)	(3,451)	3,234	-	**-**
Acc. Amort.	-	-	-	-	-	-	**-**
Decreases	-	(23,168)	(47)	-	-	-	**(23,215)**
Gross value	-	(69,363)	(47)	-	-	-	**(69,410)**
Acc. Amort.	-	46,195	-	-	-	-	**46,195**
Reclassifications	-	40	-	-	-	-	**40**
Gross value	-	40	-	-	-	-	**40**
Acc. Amort.	-	-	-	-	-	-	**-**
Impairment losses	-	(1)	(18)	(38)	-	-	**(56)**
Gross value	-	(1)	(18)	(38)	-	-	**(56)**
Acc. Amort.	-	0	-	-	-	-	**0**
Fixed assets classified as assets held for sale	-	(1,373)	(94)	-	-	-	**(1,467)**
Gross value	-	(5,083)	(94)	-	-	-	**(5,176)**
Acc. Amort.	-	3,710	-	-	-	-	**3,710**
Depreciation	(3,906)	(135,791)	-	-	(12,240)	-	**(151,937)**
Total changes	**(878)**	**73,667**	**3,158**	**(434)**	**(425)**	**0**	**75,086**
Historical cost	92,843	5,477,481	13,106	3,278	117,768	142,956	**5,847,432**
Accumulated amortisation	(88,283)	(2,754,876)	-	-	(81,535)	-	**(2,924,694)**
Balance at 31.12.2017	**4,560**	**2,722,605**	**13,106**	**3,278**	**36,233**	**142,956**	**2,922,738**

Intangible assets rose due to a particularly active investment campaign in 2017 of 251,721 thousand euro, decreases of 23,215 thousand euro, reclassifications of 1,427 thousand euro (-1,467 thousand euro due to the classification of assets pertaining to the Villasanta business unit and the Moscufo concession) as well as amortisation and impairment losses of 151,937 thousand euro.

“Patent and intellectual property rights” included 3,027 thousand euro investments and 3,906 thousand euro amortisation charges.
The increases in the year mainly regarded some software licences the Group bought, including licences for various software programmes to combat cybercrime for 831 thousand euro.

The item “Concessions and similar rights” includes the amounts relating to the recognition of the Company’s rights as concession operator and gas distribution service provider, as well as one-off fees for the acquisition of natural gas distribution concessions. The figure must be read together with the related item “Fixed assets under construction”. The total of the two items shows a final balance after accumulated amortisation of 2,735,711 thousand euro.

The amortisation of concession charges was determined on a straight-line basis and on the basis of the estimated realisable value at the end of the concession. The Company determined the terms of the concessions using the same criteria adopted in the previous year.

For concessions which have expired at the reporting date and therefore are operating in an extension regime (prorogatio), the residual value has been restated to take into consideration the postponement of the effective expiry of these concessions.

It should be recalled in particular that, pursuant to the Italian Ministry of Economic Development’s Decree, of 19 January 2011 “Identification of local areas in the natural gas distribution sector” which came into force on 1 April 2011, according to art. 3, paragraph 3 of said Decree “as from the coming into force of this provision, the tenders for the assignment of the gas distribution service, as provided for by art. 14, paragraph 1, of Italian Legislative Decree No. 164 of 23 May 2000, for which the call for tender has not been published or for which the deadline for submitting offers has not expired, are awarded solely for the local areas established in Annex 1 forming an integral part of this provision” and that, in compliance with art. 14, paragraph 7 of Italian Legislative Decree No. 164/2000, “the outgoing operator, pursuant to art. 14, paragraph 7, of Italian Legislative Decree No. 164 of 23 May 2000, in any case remains under obligation to continue managing the service until the start date of the new assignment”.

“Fixed assets under construction and advances”, totalling 3,278 thousand euro, mainly consisted of investments in software which is being developed to guarantee better and more precise management of the Company.

"Other intangible assets" of 36,233 thousand euro include other long-term costs, such as capitalised costs linked to the implementation of the remote reading system for smart meters.

"Goodwill" is equal to 142,956 thousand euro and is related to the deficit from the merger of companies which had previously been subsidiaries. This item was recognised in agreement with the Board of Statutory Auditors.

The estimate of the recoverable value of goodwill recognised in the financial statements is based on the discounted cash flow model that uses estimates of future cash flows, applying an appropriate discount rate, to measure an asset's value in use.
For the purposes of this estimate, the whole Group is considered as a Cash Generating Unit, consistently with the corporate vision.
In detail, cash flows are considered for a forecast period of 5 years, consistent with the 2i Rete Gas Group plan described by the Board of Directors on 12 January 2018 and drafted on the going concern assumption, plus the terminal value calculated with the perpetual income algorithm.

In this framework, the two main assumptions are:

- continuity in concession management, since the redefinition of the relevant local areas resulting from the territorial tenders will be a concrete opportunity for the Group to expand its business on the competitive market given its economic capacity, available credit lines, and top position in a market that is experiencing concentration;
- the continuous management of end customers, with the assumption of a further organic growth only on the already existing networks at a rate compatible with the experience on the market in recent years.

The discount rates applied, the forecast period over which projected cash flows are discounted, and the Group terminal value growth rate are detailed in the table below.

Tax Rate	WACC (1)	Cash flow forecast period	"TV (g) growth rate "
28,6% (2)	3.6%	2018 - 2022	0%

(1) Post-tax WACC is aligned to the average cost of financing of the best-performing peers in the sector
(2) IRAP + IRES rate

The value in use, determined in accordance with the aforementioned methods, was higher than the value of the net invested capital recorded in the financial statements.

The recoverability of the Group's invested capital was also confirmed by a further sensitivity analysis undertaken by considering possible changes in the key assumptions included in the business and financial plan used for the impairment test.
In particular, the simulation of a worsening scenario was done by changing the value of net cash flows within the plan. Without prejudice to all the other assumptions included in the plan, the analysis carried out showed that, in order to reach the indifference point (i.e. the value in use of the asset being equal to the net invested capital), there would have to be damaging changes to the plan such as to reduce the net cash flows by around 43%, a percentage which is much higher than the reductions considered possible by the Company.

13. Net deferred tax assets – 72,701 thousand euro

Deferred tax assets and deferred tax liabilities are determined based on the tax rates in force at the reporting date. Deferred tax assets totalled 174,807 thousand euro, while deferred tax liabilities totalled 102,106 thousand euro.

Deferred tax assets and liabilities at 31 December 2017 were determined using the tax rates in force: 24% for IRES and 4.57% for IRAP.

As for deferred tax liabilities, the 2,670 thousand euro increase included 862 thousand euro for recognising in OCI the tax consequences of the fair value measurement of the derivative; the 3,840 thousand euro decline derived from the usual changes occurred during the year.

The change in deferred taxes assets for the year refers to increases for 16,894 thousand euro and decreases for 12,757 thousand euro due to regular changes in the year.

Considering, among other things, the flows estimated in the most recent business plans, the Company believes it can use deferred tax assets in the ordinary course of business.

The table below details changes in deferred tax assets and liabilities by type of temporary difference, determined according to the tax rates in force, and the portion of recoverable and non-recoverable deferred taxes.

Thousands of euro	At 31.12.2016	Balance after adjustments to Unico	At 01.01.2017	Increases recognised in		Decreases recognised in		Other changes			Balance at 31.12.2017
				Profit or Loss	Equity	Profit or Loss	Equity	Profit or Loss	Equity	Classified under assets available for sale	
Deferred income tax assets:											
allocation to provisions for risks and charges, deferred deductibility	18,220	-	18,220	4,695	-	(3,601)	-	-	-	-	**19,314**
allocation to provisions for incentives to leave and stock options	991	-	991	-	-	(281)	-	-	-	-	**710**
allocation to provisions for disputes	4,665	-	4,665	1,036	-	(1,680)	-	-	-	-	**4,021**
allocation to provisions for inventory obsolescence	3,302	-	3,302	102	-	(89)	-	-	-	-	**3,314**
impairment losses on assets, deferred deductibility (receivables write-downs)	2,594	-	2,594	1,142	-	(347)	-	-	-	(27)	**3,363**
impairment losses on assets, deferred deductibility (plant write-do	1,900	-	1,900	-	-	-	-	-	-	-	**1,900**
depreciation and amortisation of tangible and intangible assets, deferred deductibility	80,392	-	80,392	9,018	-	(3,574)	-	-	-	(107)	**85,729**
separation of land/buildings and component analysis	114	-	114	-	-	-	-	-	-	-	**114**
start-up costs	2,225	-	2,225	-	-	-	-	-	-	-	**2,225**
post-employment and other employee benefits	2,791	-	2,791	867	-	(711)	-	-	-	-	**2,948**
cash deductible taxes and duties	12	-	12	-	-	-	-	-	-	-	**12**
proceeds subject to deferred taxation (connection fees)	32,297	-	32,297	-	-	(185)	-	-	-	-	**32,112**
deferred deductibility charges	17,899	-	17,899	4	-	(2,244)	-	-	-	-	**15,659**
goodwill	1,135	-	1,135	-	-	-	-	-	-	-	**1,135**
post-employment benefits - Italian Accounting Body (OCI)	2,267	-	2,267	-	31	-	(46)	-	-	-	**2,252**
Total	**170,804**	**-**	**170,804**	**16,863**	**31**	**(12,711)**	**(46)**	**-**	**-**	**(134)**	**174,807**
Deferred income tax liabilities:											
differences on tangible and intangible assets – additional depreciation and amortisation	26,181	-	26,181	332	-	(811)	-	-	-	-	**25,702**
differences on intangible assets – goodwill	5,655	-	5,655	-	-	(546)	-	-	-	-	**5,109**
separation of land / buildings and component analysis	3,827	-	3,827	-	-	-	-	-	-	-	**3,827**
allocation to assets of costs relating to company mergers	42,115	-	42,115	-	-	(1,787)	-	-	-	-	**40,328**
post-employment benefits	887	-	887	-	51	-	-	-	-	-	**939**
proceeds subject to deferred taxation	1,257	-	1,257	1,329	-	(222)	-	-	-	-	**2,364**
derivative financial instruments (in case of a net positive change in the relevant equity reserve)	4,174	-	4,174	-	862	-	-	-	-	-	**5,036**
other...	1,566	-	1,566	33	-	(178)	-	-	-	-	**1,421**
Derivative financial instruments and ASEM - Italian Accounting Body (OCI)	16	-	16	-	17	-	-	-	-	-	**33**
recognition of deferred taxes due to merger	17,597	-	17,597	46	-	(296)	-	-	-	-	**17,348**
5% dividends received allocated to future years on an accruals basis	1	-	1	-	-	(1)	-	-	-	-	**-**
Total	**103,276**	**-**	**103,276**	**1,740**	**930**	**(3,840)**	**-**	**-**	**-**	**-**	**102,106**
Net deferred tax assets	**67,527**	**-**	**67,527**	**15,123**	**(899)**	**(8,871)**	**(46)**	**-**	**-**	**(134)**	**72,701**

14. Equity investments – 15,053 thousand euro

The following table shows the changes in the year for each equity investment, with the corresponding values at the beginning and end of the year, as well as the list of equity investments held in other companies.

The investments in CBL Distribuzione and Italcogim Trasporto were cancelled following, in one case, the sale of the whole investment held during 2017, and, in the other, following the liquidation of the company having achieved its corporate purpose.

The list of equity investments and the change in their value during 2017 are reported on the following page.

Thousands of euro	Carrying amount	% ownership	Increases for the year	Disposals	Other decreases	Adjustments	Original cost	Increase / (Decrease)	Carrying amount	% ownership
	at 31.12.2016		Changes in 2017				at 31.12.2017			
A) Subsidiaries										
Italcogim Trasporto S.r.l.	**2,908**	**100%**			(2,908)		**2,908**	**(2,908)**	**-**	
Genia Distribuzione gas Srl	**5,129**	**100%**					**5,129**	**-**	**5,129**	**100%**
2i Rete Gas Impianti SRL	**0**		50				**0**	**50**	**50**	**100%**
2i Rete Gas SRL	**6,906**	**100%**					**6,906**	**-**	**6,906**	**100%**
Total subsidiaries	**14,942**		**50**	**-**	**(2,908)**	**-**	**14,942**	**(2,858)**	**12,085**	
B) Associates										
Melegnano Energie Ambiente SpA	**2,451**	**40.00%**					**2,451**	**-**	**2,451**	**40.00%**
CBL Distribuzione Srl	**360**	**40.00%**			(360)		**360**	**(360)**	**-**	
Total associates	**2,812**		**-**	**-**	**(360)**	**-**	**2,812**	**(360)**	**2,451**	
C) Other companies										
Interporto di Rovigo S.p.A.	**42**	**0.30%**					**42**	**-**	**42**	**0.30%**
Fingranda S.p.A.	**26**	**0.58%**					**26**	**-**	**26**	**0.58%**
Agenzia di Pollenzo S.p.A.	**33**	**0.27%**					**33**	**-**	**33**	**0.27%**
Industria e Università S.r.l.	**11**	**0.09%**					**11**	**-**	**11**	**0.09%**
Azienda Energetica Valtellina Valchiavenna S.p.A.	**405**	**3.37%**					**405**	**-**	**405**	**3.37%**
Terme di Offida Spa	**1**	**0.19%**					**1**	**-**	**1**	**0.19%**
Asogas S.p.A. (in liquidazione)	**-**	**9.00%**					**0**	**-**	**-**	**9.00%**
Alpifiere S.r.l. in fallimento		**3.00%**								**3.00%**
Total other companies	**517**		**-**	**-**	**-**	**-**	**517**	**-**	**517**	
TOTAL EQUITY INVESTMENTS	**18,271**		**50**	**-**	**(3,268)**	**-**	**18,271**	**(3,218)**	**15,053**	

The following tables show the list of equity investments in subsidiaries and their values as recognised in the Company's financial statements at 31 December 2017:

A) Subsidiaries	Registered office	Share Capital (euro)	Equity (euro)	Profit / (Loss)	End of the reporting period	% ownership	Carrying amount	Equity (ITA GAAP) (euro)
Italcogim Trasporto S.r.l. in liquidazione	Milano	10,000	3,081,107	(8,835)	15/12/2017		-	-
Genia Distribuzione gas Srl	San Giuliano Milanese (MI)	5,316,484	6,422,352	591,805	31/12/2017	100.00%	5,128,716	6,422,352
2i Rete Gas SRL	Milano	50,000	7,337,297	435,153	31/12/2017	100.00%	6,906,000	7,337,297
2i Rete gas Impianti Srl	Milano	50,000	43,979	(6,021)	31/12/2017	100.00%	50,000	43,979

As regards associates, on the other hand, the values at 31 December 2017 were as follows:

B) Associates	Registered office	Share Capital (euro)	Equity (euro)	Profit / (Loss)	Income / loss latest year (euro)	End of the reporting period	% ownership	Carrying amount (euro)
Melegnano Energie Ambiente SpA	Melegnano (MI)	4,800,000	6,381,392	6,019,849	155,628	31.12.2016	40.00%	2,552,557

Finally, the equity investments in other companies at the same date were:

C) Other companies	Registered office	Share Capital (euro)	Equity (euro)	Profit / (Loss)	Income / loss latest year (euro)	End of the reporting period	% ownership	Carrying amount (euro)
Interporto di Rovigo S.p.A.	Rovigo	5,836,159	5,571,811	1,151,895	(281,664)	31.12.2016	0.30%	41,634
Fingranda S.p.A.	Cuneo	2,662,507	1,733,568	10,221	(119,306)	31.12.2016	0.58%	25,822
Agenzia di Pollenzo S.p.A.	Bra (CN)	24,319,920	23,891,709	953,464	85,636	31.12.2016	0.27%	33,082
Industria e Università S.r.l.	Varese	13,440,528	11,217,654	-	(29,974)	31.12.2016	0.09%	10,989
Azienda Energetica Valtellina Valchiavenna	Tirano (SO)	1,803,562	20,716,406	6,842,046	1,768,068	31.12.2016	3.37%	405,000
Terme di Offida Spa	Offida (AP)	141,384	36,487	-	(96,324)	31.12.2016	0.19%	548
Asogas S.p.A. (in liquidazione)	Amandola (FM)	2,182	(47)	100	(2,229)	31.12.2016	9.00%	-
Alpifiere S.r.l. in fallimento	Morbegno (SO)	10,330				31.12.1998	3.00%	

15. Non-current financial assets – 22,180 thousand euro

This line item essentially represents the value of the five "forward starting swap" derivatives hedging interest rate risk, which totalled 500 million euro, outstanding as from 4 August 2016. At 31 December 2017, their value amounted to 20,984 thousand euro. The item also includes the prepayment of transaction costs incurred to obtain credit lines, unused at 31 December 2017.

Thousands of euro	31.12.2017	31.12.2016	2017 - 2016
Non-current prepaid financial expenses	531	690	(158)
Long-term loans to employees	50	59	(8)
Financial receivables due from others	614	614	-
Fair value measurement of IRS derivatives	20,984	17,393	3,591
Total	**22,180**	**18,756**	**3,424**

16. Other non-current assets – 51,702 thousand euro

The item includes the following entries:

Thousands of euro

	31.12.2017	31.12.2016	2017 - 2016
security deposits	3,073	3,492	(419)
receivables for plant contributions	560	560	-
tax receivables reimbursements applied for	1,598	1,830	(232)
prepaid promotional expenses	136	197	(61)
receivables due from municipalities for disposals of assets due to expiration of concessions	8,723	10,283	(1,560)
receivables due from CSEA	23,324	15,956	7,368
other non-current assets	14,435	12,798	1,637
bad debt provision	(147)	(147)	-
Total	**51,702**	**44,968**	**6,733**

Guarantee deposits totalled 3,073 thousand euro and referred to receivables for work to be performed on distribution plants as well as from user contracts.

The 560 thousand euro contribution receivables refer to the medium-/long-term portion of receivables for plant contributions to be received.

Tax receivables reimbursements applied for, totalling 1,598 thousand euro, refer to the refund claimed pursuant to art. 6 of Italian Law Decree 185/2008 (deduction of IRES from the IRAP portion for labour costs and interest expense).

The receivable due from municipalities for disposals of assets due to the expiration of concessions had a balance of 8,723 thousand euro. This was the result of similar disputes or proceedings ongoing with various municipalities in order to define the amount of the refund owed to the Company as outgoing operator for some concessions already ended. This year, too, the Company placed special emphasis on this issue, unlocking a further tranche of receivables by reaching out-of-court settlements.

The balance of non-current receivables due from the Fund for Energy and Environmental Services (CSEA), totalling 23,324 thousand euro, referred to the amount that ARERA decided must be paid to distribution companies for all the conventional meters that must be replaced with smart ones pursuant to Resolution 155/09, but that had not yet been fully amortised through tariffs at the date of their replacement. The significant increase was the result of the replacements made during 2017, which are expected to continue in the following year.

Finally, the 1,637 thousand euro increase in other non-current assets included the balance of the advance payments of the fees that distribution companies must pay to contracting authorities for ATEM tenders (9,014 thousand euro at 31 December 2017), as well as the remaining amount of the prepaid expenses for the lease payment paid in advance to the company API, which owns the networks operated in the municipality of Rozzano (3,625 thousand euro).

Current assets

17. Inventories – 18,964 thousand euro

In detail, closing inventories of raw materials, ancillaries and consumables mainly consist of materials for construction and maintenance of gas and water distribution plants and, in particular, of the new smart meters.
The item includes the provision for the write-down of inventories equal to 646 thousand euro. The provision was set up to take into account inventories with unlikely future use. The Company uses the weighted average cost method.

18. Trade receivables – 272,272 thousand euro

Trade receivables are broken down as follows:

Thousands of euro

	31.12.2017	31.12.2016	2017 - 2016
Third-party customers:			
Receivables due from customers	277,199	243,897	33,301
- Bad debt provision	(9,028)	(13,593)	4,565
Receivables for returns under warranty	5,059	1,328	3,731
- Bad debt provision	(2,677)	(157)	(2,520)
Total	**270,553**	**231,475**	**39,078**
Group companies:			
Receivables due from subsidiaries	1,719	1,699	20
Total	**1,719**	**1,699**	**20**
TOTAL	**272,272**	**233,174**	**39,097**

Receivables due from third-party customers consist of trade receivables and receivables from operations and include receivables relating to gas distribution and to the invoicing of water sales.
Such receivables are recognised net of a 9,028 thousand euro bad debt provision.
Receivables for returns under warranty, which are recognised net of the relevant bad debt provision, concern receivables due from manufacturers of meters for non-functioning assets which have long-term warranties. The amount is stated net of the bad debt provision to take account of changed contractual conditions and findings which lead to the belief that the receivable is no longer collectible.
Changes in the bad debt provision are set out below.

Thousands of euro	31.12.2017	31.12.2016	2017 - 2016
At 31 December 2016	**13,593**	**13,589**	**4**
Merger contributions	-	17	(17)
Allocations	482	1,709	(1,228)
Releases	(1,554)	(523)	(1,032)
Uses	(3,341)	(1,199)	(2,142)
Other changes	(151)	-	(151)
At 31 December 2017	**9,028**	**13,593**	**(4,565)**

The bad debt provision at 31 December 2017 was subject to taxes of 8,697 thousand euro.

The breakdown of receivables due from subsidiaries is as follows:

	31.12.2017	31.12.2016	2017 - 2016
Receivables due from subsidiaries:			
2I Rete Gas Impianti S.r.l.	2	-	2
2I Rete Gas S.r.l.	1,605	1,264	341
Italcogim Trasporto S.r.l.	-	3	(3)
Genia Distribuzione gas S.r.l.	112	432	(320)
TOTAL	**1,719**	**1,699**	**20**

All the Company's operations are in Italy.

19. Short-term financial receivables – 2,530 thousand euro

Short-term financial receivables, totalling 2,530 thousand euro, consist of 2,521 thousand euro financial receivables due from the subsidiary Genia Distribuzione S.p.A. for an intercompany current account.

20. Other current financial assets – 9 thousand euro

Other current financial assets contain the accrued interest income unpaid by the bank at 31 December 2017.

21. Cash and cash equivalents – 815,063 thousand euro

Cash and cash equivalents rose by 633,180 thousand euro owing to the issue of a debenture loan instalment under the EMTN programme approved in the year. Following this issue, the resulting cash was temporarily invested in the very short term in order to be available for the capital contribution to the newly established 2i Rete Gas Impianti S.r.l., which was planned for the first few days of 2018.

On 2 January 2018, the subsidiary received in fact 730,000 thousand euro as a capital contribution.
The amount was used to pay for the investment in Nedgia S.p.A. and Gas Natural Italia S.p.A. for refinancing the related bank debt in February 2018.

Cash and cash equivalents are broken down as follows:

Thousands of euro	31.12.2017	31.12.2016	2017 - 2016
Bank deposits	814,539	181,475	633,065
Post office deposits	372	266	106
Cash in hand	152	142	9
Total	**815,063**	**181,883**	**633,180**

Cash associated with operating activities is held in bank and post office deposits.

22. Income tax receivables – 19,456 thousand euro

Income tax receivables for IRES and IRAP totalled 19,337 thousand euro (98 thousand euro of which for receivables relating to the tax consolidation contract) and 119 thousand euro, respectively. The 10,887 thousand euro increase was due to payments on account made during 2017.

23. Other current assets – 169,096 thousand euro

The item is broken down as follows:

Thousands of euro

	31.12.2017	31.12.2016	2017 - 2016
Other tax receivables:			
VAT receivables reimbursements applied for	7,326	879	6,447
Receivables due from tax authorities for VAT	6,831	-	6,831
Other tax receivables	122	117	5
Other receivables:			
from social security and insurance agencies	353	330	24
for plant contributions	1,932	1,529	403
from CSEA	144,668	166,301	(21,633)
from municipalities for disposals of assets due to expiration of concessions	1,306	2,662	(1,356)
from municipalities	246	246	-
from suppliers	2,940	1,547	1,394
Other receivables	3,699	4,150	(451)
Provision for other doubtful debts	(2,472)	(1,152)	(1,320)
Accrued income	1	1	-
Deferred expenses relating to other multi-year charges	51	51	-
Deferred expenses relating to real estate lease fees	521	713	(192)
Prepayment of promotional expenses	27	-	27
Deferred insurance premiums	14	78	(64)
Other deferred expenses	1,524	1,285	240
Other current receivables - Group			
Other current receivables - Group	6	6	-
Total	**169,096**	**178,742**	**(9,646)**

The item fell by 9,646 thousand euro mainly due to the 21,633 thousand euro fall in receivables due from CSEA compared to the previous year; these receivables include the amount which must be recognised for energy efficiency certificates (35,809 thousand euro), the amount arising from the equalisation of the gas distribution service (26,693 thousand euro), receivables for the UG2 components and the Gas Bonus (48,391 thousand euro) and the recognition of Technical Quality (29,175 thousand euro).
In particular, receivables for energy efficiency certificates, following the introduction of the change to the procedures for the related payments on account, fell by 30,186 thousand euro compared to the previous year.
Receivables due from municipalities for disposals of assets fell in 2017 largely due to the settlement of the dispute with the Municipality of Sabbioneta.
Finally, the increase in the provision for other doubtful debts involved the write-down made to a receivable for energy efficiency certificates, the collectability of which has become doubtful.

37. Assets held for sale – 2,141 thousand euro

During the year, the water concessions in Villasanta and Moscufo were classified as assets held for sale, in the former case, by virtue of the sale contract signed in December 2017 and executed in January 2018 and, in the latter case, in compliance with the agreements reached between the parties (and included in a contract which was already executed at the reporting date). Last year the item had a nil value.

Liabilities

Equity

24. Equity – 758,282 thousand euro

Equity rose by 38,633 thousand euro as a result of the following changes:

- decrease in the ordinary dividend pay-out of 0.2337 euro per share, for an overall amount of 85,032 thousand euro;
- increase in reserves for valuation of derivatives (2,729 thousand euro relating to the fair value measurement of the outstanding derivative) and other reserves (for 208 thousand euro relating to the discounting of defined benefits) owing to the profit for the year recognised directly in equity;
- 120,728 thousand euro increase in the profit for the year.

Share capital – 3,639 thousand euro
The share capital at 31 December 2017 consisted of 363,851,660 ordinary shares and was entirely subscribed and paid up; there were no changes during the year.

Share premium reserve – 286,546 thousand euro
The share premium reserve did not change in the year.

Legal reserve – 728 thousand euro
The legal reserve amounted to 728 thousand euro and was unchanged, as last year it reached the legal limit.

Reserves for valuation of derivatives – 15,948 thousand euro
The Company created the reserve for valuation of derivatives in 2016 after entering into Forward Starting Interest Rate Swap contracts. From 31 December 2016 to 31 December 2017, the reserve increased by 2,729 thousand euro.

Other reserves – 206,918 thousand euro
Other reserves changed by 208 thousand euro compared to the previous year, owing to the recognition of the impact of the actuarial valuation of the Company's defined benefit plan in equity.

Retained earnings – 123,776 thousand euro
Retained earnings rose 43,981 thousand euro from the previous year as the general meeting resolved to distribute part of the profit for 2016 and allocate the rest to this reserve.

Profit for the period – 120,728 thousand euro

The net profit for 2017, compared to 2016 (129,013 thousand euro), fell by 8,285 thousand euro, largely due to the impact of financial charges for the liability management exercise in the year.

The table relating to the availability and possibility of distributing equity is shown below:

	Amount	Possibility of use	Amount available	Amount unavailable
Share Capital	3,638,517			3,638,517
Share premium reserve	286,546,491	A,B,C	286,546,491	
Legal reserve	727,703	B	0	727,703
Other reserves	195,596,638	A,B,C	195,596,638	
Reserves other than merger surplus	102,762,190	A,B	102,762,190	
Reserves other than FTA	(86,021,234)		(86,021,234)	
Reserves other than post-employment benefit (TFR) measurement	(5,419,893)		(5,419,893)	
Reserves other than derivative measurement	15,947,882		15,947,882	
Retained earnings (accumulated losses)	123,775,746	A,B,C	123,775,746	
Net income for the year	120,727,912	A,B,C	120,727,912	
Total	**758,281,951**		**753,915,731**	**4,366,220**

Legend:
A: Available for capital increase
B: Available to cover losses
C: Available for dividend to shareholders

Non-current liabilities

25. Long-term loans – 2,806,984 thousand euro

The item refers to the five instalments of the long-term debenture loan the Company issued between 2014 and 2017 as well as 425 million euro in three credit lines received from the European Investment Bank used between 2015 and 2017.

The table below shows long-term debt expressed in the original currency and the relevant interest rate. The notional amount of the loan is the same as its carrying amount.

Thousands of euro	Balance		Notional Value		Interest rate	Effective
	31.12.2017	31.12.2016	31.12.2017	31.12.2016	in force	interest rate
Fixed rate debt	70,000	70,000	70,000	70,000	1.39%	1.39%
Fixed rate debt	155,000	-	155,000	-	1.40%	1.40%
Floating rate debt	200,000	200,000	200,000	200,000	Eur+0,59%	0.32%
Debenture loan expiring 2019	362,793	750,000	362,793	750,000	1.75%	1.89%
Debenture loan expiring 2020	267,100	540,000	267,100	540,000	1.13%	1.35%
Debenture loan expiring 2024	600,000	600,000	600,000	600,000	3.00%	3.13%
Debenture loan expiring 2026	435,000	-	435,000	-	1.75%	1.91%
Debenture loan expiring 2027	730,000	-	730,000	-	1.61%	1.62%
Costs connected to loans (long term)	(12,909)	(11,576)				
TOTAL	**2,806,984**	**2,148,424**	**2,819,893**	**2,160,000**		

The maturity schedule for these loans is set out below.

Thousands of euro	Notional		1 year	2 - 5 years	beyond 5 years
	31.12.2017	**31.12.2016**			
Medium-/long-term financial liabilities					
Financing - Capex Line	425,000	270,000	-	54,545	370,455
Medium-/long-term debenture loans	2,394,893	1,890,000	-	629,893	1,765,000
Total	2,819,893	2,160,000	-	684,438	2,135,455

The debenture loan regulation, issued for a market of institutional investors, does not provide for covenants.
The loan agreement finalised at the end of 2016 with the European Investment Bank for a total of 225 million euro was used in full during 2017.
Both loans taken out with the European Investment Bank are subject to some covenants calculated on the basis of the consolidated financial statements that the Company must meet to continue using the credit lines.
The covenants concern the following indicators:

- Total net financial debt;
- RAB (*Regulatory Asset Base*);
- EBITDA;
- Net Financial Expenses.

At 31 December 2017, the Company met all covenants under this facility.

26. Post-employment and other employee benefits – 45,995 thousand euro

The Company provides employees with various types of benefits, including post-employment benefits, health benefits, payment in lieu of notice (*Indennità Sostitutive del Preavviso* - ISP) and payment in lieu of energy discount (*Indennità Sostitutive Sconto Energia*).

The item includes provisions for post-employment defined benefit plans and other long-term employee benefits required by law or contract.

Pursuant to IAS 19, these "defined benefit obligations" were determined using the "Projected Unit Credit Method", which requires to calculate the liability in proportion to the service already rendered at the reporting date, and not the service that could presumably be rendered overall.
In detail, the plans provided for the following benefits:

Thousands of euro

	31.12.2017	31.12.2016	2017 - 2016
Post-employment benefits	33,330	34,892	(1,561)
ASEM health service	1,787	1,820	(33)
Fondo GAS	10,878	11,334	(456)
TOTAL	**45,995**	**48,046**	**(2,051)**

An analysis of the main items is provided below.

Post-employment benefits

Under Italian law, when the employment relationship ends, the employee is entitled to receive post-employment benefits, measured as a portion for each year of service of their gross annual compensation divided by 13.5.
Following the approval of Italian Law No. 296 of 27 December 2006 (the 2007 budget law) and subsequent decrees and enabling legislation, only the portions of post-employment benefits held with the Company qualify as a defined benefit plan, while the accrued portions allocated to supplementary pension schemes and the Treasury Fund at INPS (the Italian Social Security Agency) qualify as a defined contribution plan.

Health benefits

Based on the Italian collective bargaining agreement for executives in the industrial sector, executives have the right to supplemental health care in addition to that provided by the Italian Health Service, during both the employment relationship and retirement. Asem and FASI, the health care fund set up for workers in Italy's electricity industry, reimburse medical expenses.

Fondo Gas

Italian Law Decree No. 78/2015, coordinated with Italian Law No. 125/2015 (Official Journal 14/08/2015), ordered the elimination of the so-called "Fondo Gas" (gas fund) as from 1 December 2015. The decree also provided for the payment, either to current employees or as a voluntary continuation of the contribution to Fondo Gas, of an amount (to be paid by the employer) equal to 1% of the 2014contribution to Fondo Gas, for each full year or any part thereof that the person has been a member of the fund. Said amount can be set aside with the employer or paid as a contribution to a supplementary pension scheme (hereinafter referred to as Contribution to the former Fondo Gas). The provision shall be made in 240 equal monthly instalments. Should the employment relationship end before the payments are completed, the remaining amount to be paid to Fondo Gas shall be paid in a lump sum at the time of the final wage bill.
The Company set aside an additional amount during the year after revising the estimate based on the more accurate data available on the average seniority of current employees for the purposes of Fondo Gas.

The main assumptions in the actuarial estimates of employee benefit liabilities are set out below.

	31.12.2017	31.12.2016
Financial scenarios		
Annual rate of increase in cost of living	1.50%	1.50%
Rate of increase in cost of health spending	2.50%	2.50%
Demographic scenarios		
Probability of death/invalidity	ISTAT Table 2014	ISTAT Table 2014
Resignation rate < 50 years of age	2.00%	2.00%
Resignation rate > 50 years of age	nil	nil

27. Provisions for risks and charges – 9,857 thousand euro

Provisions for risks and charges are used to cover contingent liabilities that could arise from litigation or other disputes of the Company, without taking into account the effects of disputes that could have a positive outcome and those for which a possible charge cannot be reasonably quantified.

The table below shows the total provisions for risks and charges (both the short-term and the medium-/long-term portion). The long-term portion is disclosed separately.

Thousands of euro		Of which current portion	Of which non-current portion	Allocations	Releases	Uses		Of which current portion	Of which non-current portion
	at 31.12.2016						at 31.12.2017		
Provisions for litigation and disputes	10,286	-	10,286	3,626	(4,082)	(1,797)	8,033	-	8,033
Provision for taxes and duties	925	-	925	1,359	(577)	(59)	1,649	-	1,649
Provisions for disputes with personnel	100	-	100	-	-	-	100	-	100
Provision for future charges	75	-	75	-	-	-	75	-	75
Provision for disputes on concessions	19,078	19,078	-	5,873	(3,324)	(247)	21,381	21,381	-
Other provisions for risks and charges	50,531	48,411	2,120	10,551	(7,411)	(1,617)	52,053	52,053	-
Total	**80,994**	**67,488**	**13,506**	**21,409**	**(15,393)**	**(3,719)**	**83,291**	**73,434**	**9,857**
Provisions for charges pertaining to incentives to leave	3,470	3,470	-	-	-	(983)	2,487	2,487	-
Total	**84,464**	**70,958**	**13,506**	**21,409**	**(15,393)**	**(4,702)**	**85,779**	**75,921**	**9,857**

Provisions for risks and charges amounted to 85,779 thousand euro overall. They consisted of a 75,921 thousand euro short-term portion and a 9,857 thousand euro long-term portion, and were broken down as follows:

- "Provision for litigation and disputes" covers 8,033 thousand euro in contingent liabilities arising largely from ongoing disputes; the change during the year was the result of releases relating to the positive outcome of a dispute over the construction of a purification plant in Syria, completed in the 2000s by a company that was then merged into the Group, as well as the payment of a consideration to settle a dispute over the purchase value of Genia Distribuzione, with the partial use of the relevant provision;

- “Provision for taxes and duties”, amounting to 1,649 thousand euro, mainly refers to disputes or possible challenges about the tax on the occupation of public space (TOSAP), the fee for the temporary occupation of public space (COSAP), the municipal property tax (ICI), and other local taxes;
- “Provision for disputes with personnel”, amounting to 100 thousand euro, covers expected charges arising from disputes with personnel of a company acquired in previous financial years. The Company did not consider it necessary to change this item in these financial statements;
- “Provision for disputes on concessions”, totalling 21,381 thousand euro, generally includes the costs associated with various disputes with municipalities. This line item rose by a net 2,549 thousand euro following the requests made by municipalities to revise the agreed concession fees; during the year the Company used 247 thousand euro;
- “Other provisions for risks and charges”, amounting to 52,053, cover the costs that could potentially arise from the need for maintenance or replacement of meters not fully compliant with corporate standards, as well as the risk of some tariff reviews related to concessions owned by third parties; as for this risk, last year, the Parent Company appealed against ARERA's decision to revise said tariffs for a number of concessions;
- “Provision for charges pertaining to incentives to leave”, totalling 2,487 thousand euro, addresses possible liabilities that may arise from agreements defined or in the process of being defined for the incentives to leave which started during the year and are still under way.

The fiscal position of the Company has been defined up to 2012.

28. Non-current financial liabilities – 0 thousand euro

At 31 December 2017, as in the previous year, the Company did not have any non-current financial liabilities.

29. Other non-current liabilities – 310,312 thousand euro

The item includes the following entries:

Thousands of euro	31.12.2017	31.12.2016	2017 - 2016
Deferred income:			
payables to social security and insurance agencies	1,984	1,984	-
other payables	361	361	-
Deferred income for plant contributions	47,030	47,677	(647)
Deferred income for connection fees, property subdivision, plant transfer and network extension contributions	260,938	252,098	8,840
Total other non-current liabilities	**310,312**	**302,119**	**8,193**

The increase of around 8,193 thousand euro was largely due to the fees collected in the year.

Current liabilities

30. Short-term loans – 5,867 thousand euro

The amounts included in this item refer solely to the payables for the intercompany current account.

Thousands of euro	31.12.2017	31.12.2016	2017 - 2016
intercompany financial payables	5,867	4,194	1,673
Total	**5,867**	**4,194**	**1,673**

31. Current portion of medium-/long-term bank loans – 0 thousand euro

At 31 December 2017, there was no current portion of medium-/long-term bank loans, as in the previous year.

32. Current portion of long-term provisions and short-term provisions – 75,921 thousand euro

The line item represents the current portion of the Company's provisions for risks. Comments and details on this item are provided in the section on provisions for risks and charges (note 27).

33. Trade payables – 202,088 thousand euro

This item includes all trade and operating liabilities of certain amount and timing.
This item increased by 39,923 thousand euro compared to the previous year.

The breakdown of trade payables to third-party and Group suppliers is set out below.

Thousands of euro	31.12.2017	31.12.2016	2017 - 2016
Suppliers	202,088	161,923	40,165
Total	**202,088**	**161,923**	**40,165**
Payables due to subsidiaries	-	242	(242)
Total	**-**	**242**	**(242)**
Total	**202,088**	**162,165**	**39,923**

Payables to third-party suppliers rose by 40,165 thousand euro compared to the previous year, mainly due to the increase in investments in distribution networks. The balance at 31 December 2017 mainly consists of residual amount payable to companies to which gas

distribution plant construction and maintenance is outsourced, to suppliers of materials and for the purchase of electricity and gas service for internal use.
As regards dealings with subsidiaries, the relevant payables are shown below:

Thousands of euro	31.12.2017	31.12.2016	2017 - 2016
Subsidiaries:			
Genia Distribuzione S.r.l.	-	242	(242)
Total	**-**	**242**	**(242)**
TOTAL	**-**	**242**	**(242)**

34. Income tax payables – 61 thousand euro

At 31 December 2017, the Company had a debit balance for the tax consolidation contract due to the trend in the payments made on account.

35. Current financial liabilities – 19,559 thousand euro

Current financial liabilities mainly refer to the interest expense accrued and not yet paid relating to the instalments of the debenture loan issued.

Thousands of euro	31.12.2017	31.12.2016	2017 - 2016
Accrued liabilities for interest on short-term bank loans	18,984	20,572	(1,588)
Other current financial payables	574.95	527	48
Total	**19,559**	**21,099**	**(1,540)**

36. Other current liabilities – 184,075 thousand euro

Other current liabilities rose in the year by 28,910 thousand euro, mainly due to the fall in “Other tax payables” and “Other payables”, an item which also includes the payable due to the Fund for Energy and Environmental Services (CSEA) for the items relating to various tariff components.
Other current liabilities are set out below:

Thousands of euro

	31.12.2017	31.12.2016	2017 - 2016
other tax payables	3,961	12,492	(8,530)
payables to social security and pension agencies	10,022	10,224	(202)
other payables	155,378	117,141	38,237
accrued liabilities	4,063	4,046	17
deferred income	10,651	11,263	(612)
Total	**184,075**	**155,165**	**28,910**

Other tax payables, amounting to 3,961 thousand euro, are set out below.

Thousands of euro

	31.12.2017	31.12.2016	2017 - 2016
VAT payables	431	8,866	(8,434)
Employee withholding taxes	3,271	3,474	(203)
Withholding taxes	209	103	107
Other taxes	50	50	-
Total	**3,961**	**12,492**	**(8,530)**

Payables to welfare and social security agencies, amounting to 10,022 thousand euro, are set out below.

Thousands of euro

	31.12.2017	31.12.2016	2017 - 2016
due to INPS	9,016	9,425	(410)
due to other agencies	1,006	799	207
Total	**10,022**	**10,224**	**(202)**

Other payables, amounting to 155,378 thousand euro, are set out below.

Thousands of euro

	31.12.2017	31.12.2016	2017 - 2016
Payables to employees	12,704	14,173	(1,469)
Payables to municipalities for rights and fees	3,312	4,022	(709)
Payables for connections and other payables due to customers	2,098	2,056	42
User security deposits and advances	2,053	2,289	(236)
Payables to CSEA	128,710	88,354	40,356
Other payables	6,500	6,246	253
Total	**155,378**	**117,141**	**38,237**

Payables to the Fund for Energy and Environmental Services (CSEA) consist of 91,501 thousand euro payables for the entries that are transferred to the trading companies through the invoicing mechanism and then paid to CSEA, generally on a bi-monthly basis (UG1, UG2, UG3, Gs, Re and Rs), 8,138 thousand euro payables relating to the equalisation amount for

the current year and 27,413 thousand euro payables relating to the equalisation amount for previous years mainly due to equalisation adjustments.
Accruals and deferred income, amounting to 14,714 thousand euro, are set out below.

Thousands of euro	31.12.2017	31.12.2016	2017 - 2016
Accrued liabilities			
Additional monthly accrual for employees	3,051	3,095	(44)
Other accrued liabilities	1,013	951	62
Total accrued liabilities	**4,063**	**4,046**	**17**
Deferred income			
Deferred income for plant contributions	2,202	2,953	(751)
Deferred income for connection fees, property subdivision, plant transfer and network extension contributions	8,269	8,089	179
Other deferred income	180	220	(41)
Total deferred income	**10,651**	**11,263**	**(612)**
Total accrued liabilities and deferred income	**14,714**	**15,308**	**(595)**

37. Liabilities held for sale – 2,332 thousand euro

At 31 December 2017, the liabilities relating to the water concession in Villasanta were classified under this item, while in the previous year the figure was zero.

Related party disclosures

Related parties are identified in accordance with international accounting standards.

The following were defined as related parties for 2017:

- Genia Distribuzione Gas S.r.l.
- Italcogim Trasporto S.r.l.
- 2i Rete Gas S.r.l.
- F2i SGR S.p.A. – as the operating company of "F2i – Italian Infrastructure Fund, closed-end investment fund, reserved for qualified investors" ("F2i – *Fondo Italiano per le Infrastrutture, fondo di investimento mobiliare di tipo chiuso, riservato ad investitori qualificati*")
- F2i SGR S.p.A. – as the operating company of "F2i – Second Italian Infrastructure Fund, closed-end investment fund, reserved for qualified investors" ("F2i – *Secondo Fondo Italiano per le Infrastrutture, fondo di investimento mobiliare di tipo chiuso, riservato a investitori qualificati*")
- Finavias Sarl
- Axa Infrastructure Holding S.à r.l.
- Melegnano Energia Ambiente S.p.A. (MEA S.p.A.)
- Software Design S.p.A.

The definition of related parties also includes key management personnel, including their close relatives, of the Company as well as of the companies controlled directly and/or indirectly by them, jointly controlled companies and those in which the Company exercises considerable influence. Key management personnel are those who have direct and indirect power and responsibility for planning, management, and control of company operations, including the chief executive officer and the managers reporting to him, as well as Directors.

The Group has a centralised cash management system equipped with intercompany current accounts as well as a tax consolidation contract which generates financial movements.
All the commercial balances are for transactions at market values.

Trade, financial and other transactions involving the Company, its parent companies and its subsidiaries are shown below.

Trade and other transactions

Year 2017

Thousands of euro	Trade Receivables	Trade Payables	Costs	Revenue
F2i sgr Spa	-	10	40	-
Italcogim Trasporto S.r.l.	-	-	-	15
MEA S.p.A	18	-	-	18
Genia Distribuzione Gas S.r.l.	118	-	100	612
2i Rete GAS S.r.l.	1,605	-	-	816
Software Design S.p.A.	-	487	646	-
2I Rete GAS Impianti S.r.l.	2	-	-	2
Key management personnel, including directors and statutory auditors	-	283	2,205	-
Total	**1,743**	**780**	**2,991**	**1,463**

Year 2016

Thousands of euro	Trade Receivables	Trade Payables	Costs	Revenue
Italcogim Trasporto S.r.l.	3	-	-	11
CBL Distribuzione	1,581	450	152	479
MEA S.p.A	55	-	-	-
Genia Distribuzione Gas S.r.l.	438	242	223	1,508
2i Rete GAS S.r.l.	1,264	-	-	2,046
Software Design S.p.A.	-	640	1,046	-
Key management personnel, including directors and statutory auditors	-	914	3,028	-
Total	**3,341**	**2,246**	**4,449**	**4,044**

Financial transactions

Year 2017

Thousands of euro	Financial Receivables	Financial Payables	Financial Costs	Financial Revenue	Dividends paid
F2i sgr Spa	-	-	-	-	-
F2i – Fondo Italiano per le Infrastrutture (managed by F2i sgr Spa)	-	-	-	-	54,335
F2i – Secondo Fondo Italiano per le Infrastrutture (managed by F2i sgr Spa)	-	-	-	-	6,894
Finavias S. à r.l.	-	-	-	-	18,112
Axa Infrastructure Holding S. à r.l.	-	-	-	-	5,640
Italcogim Trasporto S.r.l.	-	-	15	174	-
MEA S.p.A	-	-	-	0	-
Genia Distribuzione Gas S.r.l.	2,521	61	-	13	-
2i Rete GAS S.r.l.	98	5,867	22	-	-
Total	**2,620**	**5,929**	**37**	**187**	**84,981**

Year 2016

Thousands of euro	Financial Receivables	Financial Payables	Financial Costs	Financial Revenue	Dividends paid
F2i – Fondo Italiano per le Infrastrutture (managed by F2i sgr Spa)	-	-	-	-	54,335
F2i – Secondo Fondo Italiano per le Infrastrutture (managed by F2i sgr Spa)	-	-	-	-	6,894
Finavias S. à r.l.	-	-	-	-	18,112
Axa Infrastructure Holding S. à r.l.	-	-	-	-	5,640
Italcogim Trasporto S.r.l.	42	2,515	21	-	-
MEA S.p.A	100	-	-	100	-
Genia Distribuzione Gas S.r.l.	932	-	-	7	-
2i Rete GAS S.r.l.	200	1,680	6	0	-
Total	**1,273**	**4,194**	**28**	**107**	**84,981**

Key information regarding subsidiaries are shown below:

Equity investments

Genia Distribuzione Gas S.r.l.

Share capital – 5,316,484 euro
Registered office: San Giuliano Milanese
Equity investment: 100%
Genia Distribuzione is the concession operator of the natural gas distribution service in the municipality of San Giuliano Milanese.
The financial statements at 31 December 2017 showed net profit of 592 thousand euro with revenue of 2,546 thousand euro and equity of 6,422 thousand euro.

2i Rete Gas S.r.l.

Share capital – 50,000 euro
Registered office: Milan
Equity investment: 100%
2i Rete Gas S.r.l. is the concession operator of the natural gas distribution service in the municipality of Cinisello Balsamo.
The financial statements at 31 December 2017 showed net profit of 435 thousand euro with revenue of 5,741 thousand euro and equity of 7,337 thousand euro.

2i Rete Gas Impianti S.r.l.

Share capital – 50,000 euro
Registered office: Milan
Equity investment: 100%
The company did no business in 2017.
The financial statements at 31 December 2017 showed net loss of 6 thousand euro and equity of 44 thousand euro.

Significant extraordinary events and operations

Pursuant to CONSOB Communication of 28 July 2006 No. DEM/6064293, there were no significant extraordinary events or operations during the year.

Positions or transactions arising from atypical and/or unusual operations

Pursuant to CONSOB Communication of 28 July 2006 No. DEM/6064293, there were no positions or transactions arising from atypical and/or unusual operations during the year.

Fees for Directors, auditors and key management personnel

In 2017, the fees for directors, auditors and key management personnel, totalling 2,205 thousand euro, included 55 thousand euro in auditors' fees and 335 thousand euro in directors' fees.

Contractual commitments and guarantees

The Company provided 94,785 thousand euro in guarantees to third parties. These guarantees include 80,087 thousand euro in bank guarantees and 14,699 thousand euro in insurance guarantees.
These guarantees were provided in favour of maintenance and extension work for the distribution networks as well as the participation in tenders for operating gas distribution services.
Moreover, pursuant to paragraph 22-ter of art. 2427 of the Italian Civil Code, there are no agreements that have not been disclosed in the financial statements that could significantly impact the Company's financial statements.

Contingent liabilities and assets

Contingent liabilities

Currently there are no contingent liabilities.

Contingent assets

Currently there are no contingent assets.

Credit, liquidity and market risk

Credit risk

2i Rete Gas provides its distribution services to over 260 sales companies, the most significant of which is Enel Energia S.p.A.
In relation to invoiced volumes, no significant cases of non-compliance by the counterparties were found in 2017.
User access to the gas distribution service is governed by the Network Code, which, in compliance with the provisions of ARERA, establishes the rights and obligations of the entities involved in the distribution service process, as well as the contractual clauses that reduce the risk of breach by sales companies.
As part of gas distribution operations, the credit lines to external counterparties are carefully monitored by assessing the relevant credit risk and requiring adequate guarantees and/or security deposits, ensuring an appropriate level of protection against the risk of default by the counterparty.
Outstanding guarantees and security deposits on trade receivables totalled 120,922 thousand euro.

Therefore, the credit risk is mitigated.

A summary quantitative indication of the maximum exposure to credit risk is represented by the carrying amount of financial assets, gross of the relevant bad debt provision.

At 31 December 2017, the maximum exposure to credit risk totalled 1,330.8 million euro (of which 815.1 million euro in cash and cash equivalents compared to 181.9 million euro in the previous year):

Millions of euro

	31.12.2017	31.12.2016	2017 - 2016
Third parties:			
Non-current financial assets	22.2	18.8	3.4
Other non-current financial assets (gross of bad debt provision)	51.8	45.1	6.7
Trade receivables (gross of bad debt provision)	282.3	245.2	37.0
Other current financial assets	0.0	0.9	(0.9)
Cash and cash equivalents	815.1	181.9	633.2
Other receivables (gross of bad debt provision)	155.1	176.8	(21.6)
Group companies:			
Trade receivables	1.7	1.7	0.0
Other receivables (gross of bad debt provision)	0.0	0.0	-
Short-term financial receivables	2.5	0.8	1.7
Total	**1,330.8**	**671.2**	**659.6**

Liquidity risk

Based on the current financial structure and the expected cash flows as projected in the business plans, 2i Rete Gas is able to autonomously meet the financial requirements of its ordinary operations and to ensure business continuity.
Besides the debenture loans issued in 2014 and 2017, the Company entered into two loans with the European Investment Bank in 2015 and 2016, totalling 425 million euro (fully used at 31 December 2016). The aforementioned liability management exercise enabled the Company to further improve, during the year, the duration and the interest rate compared to the previous situation.
In order to properly disclose liquidity risk as required by IFRS 7, here below are the characteristics of the company's debt.

The contractual maturities of the financial liabilities outstanding at 31 December 2017 are set forth below:

Millions of euro	Within next year	Between 2 and 5 years	Beyond 5 years
Financial liabilities at 31 December 2017			
Long-term loans		54.5	370.5
Medium-/long-term debenture loans		629.9	1,765.0
Short-term loans	5.9		
Short-term payables due to banks	-		
Other long-term financial liabilities			
Other short-term financial liabilities	19.6		
Current financial liabilities			
Total	**25.4**	**684.4**	**2,135.5**

For comparative purposes, the contractual maturities of the financial liabilities outstanding at 31 December 2016 are set forth below:

Millions of euro	Within next year	Between 2 and 5 years	Beyond 5 years
Financial liabilities at 31 December 2016			
Long-term loans		36.4	233.6
Medium-/long-term debenture loans		1,290.0	600.0
Short-term loans	4.2		
Short-term payables due to banks	-		
Other long-term financial liabilities			
Other short-term financial liabilities	21.1		
Current financial liabilities			
Total	**25.3**	**1,326.4**	**833.6**

The projected liquidity requirements are estimated based on the cash flows expected from ordinary operations.
It should be noted that loans are subject to regular checks on the compliance with some financial covenants at consolidated level.
At 31 December 2017, the Company has met all of the covenants.

"Medium-/long-term debenture loans", totalling 2,395 million euro, refer to the aforementioned instalments issued by 2i Rete Gas and expiring between 2019 and 2027.

The Company's growth plan requires refinancing existing debt, but given the Company's excellent performance, the rating obtained, and the ongoing compliance with the financial covenants established by the lending banks, currently the Company does not face any problems in obtaining said refinancing.
The Company constantly monitors opportunities to optimise its financial structure.
For an in-depth analysis of long-term loans, see note 25 in these financial statements.

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices as a result of changes in exchange rates, interest rates, or the prices of equity instruments.

Transactions that qualify for hedge accounting pursuant to the requirements of the accounting standards are designated as hedging transactions, while those that do not meet such requirements are classified as trading transactions, even though from a management point of view they have been entered into for hedging purposes.

The Company had no derivatives held for trading or for speculative purposes.

As from August 2016, 2i Rete Gas entered into 5 new Forward Starting Interest Rate Swaps. For more details, see the "Interest rate risk" section.

In accordance with IFRS 7, the table below shows financial assets and liabilities, disclosing their carrying amount and fair value at 31 December 2017. The Company has no financial assets held to maturity or available for sale nor financial assets held for trading.

Thousands of euro	Notes	Derivatives	Loans and receivables	Available for sale	Other financial liabilities	Total	Fair value
Financial assets measured at fair value							
Non-current financial assets	15	20,984				20,984	20,984
Financial assets not measured at fair value							
Non-current financial assets	15		1,196			1,196	1,196
Other non-current assets	16		51,565			51,565	51,565
Trade receivables	18-37		272,272	541		272,812	272,812
Short-term financial receivables	19		2,529			2,529	2,529
Other current financial assets	20		9			9	9
Cash and cash equivalents	21		815,063			815,063	815,063
Other current assets	23		166,958			166,958	166,958
TOTAL ASSETS		**20,984**	**1,309,592**	**541**	**-**	**1,331,117**	**1,331,117**
Financial liabilities measured at fair value							
IRS Derivatives	35	-				-	-
Financial liabilities not measured at fair value							
Long-term loan	25-31				425,000	425,000	425,000
Medium-/long-term debenture loans	25				2,381,984	2,381,984	2,515,946
Financial liabilities for unwinding IRS	28-35					-	-
Other non-current liabilities	29				361	361	361
Short-term loans	30				5,867	5,867	5,867
Trade payables	33-37			2,332	202,088	204,421	204,421
Current financial liabilities	35				18,984	18,984	18,984
Other current liabilities	36				173,424	173,424	173,424
TOTAL LIABILITIES		**-**	**-**	**2,332**	**3,207,709**	**3,210,041**	**3,344,003**

In order to enable comparison, we propose the same table as the one used in 2016:

Thousands of euro	Notes	Derivatives	Loans and receivables	Other financial liabilities and payables	Total	Fair value
Financial assets measured at fair value						
Non-current financial assets	15	17,393			17,393	17,393
Financial assets not measured at fair value						
Non-current financial assets	15		1,362		1,362	1,362
Other non-current assets	16		44,771		44,771	44,771
Trade receivables	18		233,174		233,174	233,174
Short-term financial receivables	19		1,717		1,717	1,717
Other current financial assets	20		14		14	14
Cash and cash equivalents	21		181,883		181,883	181,883
Other current assets	23		176,615		176,615	176,615
TOTAL ASSETS		**17,393**	**639,535**	**-**	**656,929**	**656,929**
Financial liabilities measured at fair value						
IRS Derivatives	35	-			-	-
Financial liabilities not measured at fair value						
Long-term loan	25-31			270,000	270,000	270,000
Medium-/long-term debenture loans	25			1,878,424	1,878,424	2,017,138
Financial liabilities for unwinding IRS	28-35				-	-
Other non-current liabilities	29			361	361	361
Short-term loans	30			4,194	4,194	4,194
Trade payables	33			162,165	162,165	162,165
Current financial liabilities	35			20,572	20,572	20,572
Other current liabilities	36			143,902	143,902	143,902
TOTAL LIABILITIES		**-**	**-**	**2,479,619**	**2,479,619**	**2,618,332**

With regard to financial assets not measured at fair value, as well as trade payables and other current liabilities, the carrying amount is considered to be a reasonable approximation of the fair value, as it is set forth in the tables above.
For the purposes of determining the fair value of the debenture loan, the Company has used the market valuations at the end of the reporting period.

Interest rate risk

The Company manages interest rate risk with the goal of achieving a balanced debt structure, reducing the amount of financial debt exposed to changes in interest rates and minimising funding costs over time, thereby limiting volatility in performance. To this end, the Company uses derivative contracts, and specifically interest rate swaps.
Concerning the current debt structure, 2,620 million euro out of a reported 2,820 million euro were not exposed to interest rate risk at 31 December 2017.

The Group has 5 forward start Interest Rate Swap derivative contracts outstanding (with start date in 3 years and maturity in 10 years from the start date) with 5 leading banks. These derivative contracts allow the Company to hedge a notional amount of 500 million euro.
The Group has tested the effectiveness of the outstanding derivatives and found that they qualify as hedging instruments.

To properly disclose interest rate risk as required by IFRS 7, the Company's outstanding contracts are shown below.

The following table breaks down the derivatives by maturity.

Thousands of euro	Notional		1 year	2 - 5 years	beyond 5 years
	at 31.12.2017	at 31.12.2016			
Cash flow hedge derivatives					
Forward Start Interest Rate Swap	500,000	500,000	-	-	500,000
Total Interest Rate Derivatives	500,000	500,000	-	-	500,000

These contracts were entered into with a notional amount lower than the total to be refinanced and a maturity aligned with that of the underlying financial liability. Therefore, the change in the expected cash flows of these contracts is offset by a corresponding change in the expected cash flows of the underlying position.

The measurement of the change in the fair value of the hedging derivative and that of the hypothetical derivative is determined by the fluctuation in the interest rate curve occurred since the inception of the instrument (Cumulative Based Test). The present value of the expected future cash flows of the outstanding derivatives is calculated based on the relevant interest rate curves received from a leading financial information provider (Telerate).

The outstanding derivatives can be measured using the inputs (interest rates) that are directly observable in the active interest rate market (Level 2 of the fair value hierarchy as per IFRS 13).

Therefore, the fair value of financial derivatives generally reflects the estimated amount the Company would pay or receive should it terminate the contracts at the reporting date.
The following table shows the notional amount and fair value of the interest rate derivatives at 31 December 2017.

Thousands of euro	Notional		Fair value		Fair value asset		Fair value liability	
	at 31.12.2017	at 31.12.2016	at 31.12.2017	at 31.12.2016	at 31.12.2017	at 31.12.2016	at 31.12.2017	at 31.12.2016
Cash flow hedge derivatives								
Forward Start Interest Rate Swap	500,000	500,000	20,984	17,393	20,984	17,393		-
Total Interest Rate Derivatives	500,000	500,000	20,984	17,393	20,984	17,393	-	-

Finally, the fair value of the above derivatives, assuming a 0.10% negative or positive shock in the relevant interest rate curves, is shown below.

Thousands of euro	Notional		-0,10%	Fair Value	+0,10%	-0,10%	Fair Value	+0,10%
	at 31.12.2017	at 31.12.2016		at 31.12.2017			at 31.12.2016	
Cash flow hedge derivatives								
Forward Start Interest Rate Swap	500,000	500,000	16,213	20,984	25,692	12,601	17,393	22,102
Total	500,000	500,000	16,213	20,984	25,692	12,601	17,393	22,102

Significant events after the reporting period

On 1 January 2018, the merger of the subsidiary Genia Distribuzione S.p.A. was completed. As from this date, 2i Rete Gas S.p.A., therefore, directly manages also the concession in San Giuliano Milanese.

On 2 January 2018, 2i Rete Gas S.p.A, implementing the resolution of the Board of Directors dated 13 November 2017, made a capital contribution of 730,000 thousand euro to the subsidiary 2i Rete Gas S.r.l. so that the subsidiary had the necessary liquidity to be able to proceed with the acquisition of Nedgia S.p.A., a company working in gas distribution mainly in Apulia and Sicily, from the Gas Natural Fenosa Group. The transaction was completed by the subsidiary in February as soon as the necessary approval was received from the Italian Competition Authority.

Direction and coordination

The Company is not subject to direction and coordination, while it provides direction and coordination to the following companies:

- 2i Rete Gas S.r.l.
- Genia Distribuzione Gas S.r.l.
- 2i Rete Gas Impianti S.r.l.

7. Proposed profit allocation for the year

In relation to the above, we propose to:

- approve the Financial Statements of 2i Rete Gas S.p.A. at 31 December 2017, which show a profit of 120,727,911.93 euro and the accompanying Directors' Report;
- distribute, in regard to the profit for the year and taking into account that the legal reserve has reached 20% of the share capital, 0.2337 euro for each of the 363,851,660 shares, equal to a total of 85,032,132.94 euro.
- carry forward the residual 35,695,779 euro of the profit.

2i Rete Gas S.p.A.
The Chief Executive Officer
Michele Enrico De Censi

VIII Report of the Board of Statutory Auditors

2i RETE GAS S.p.A. REPORT OF THE BOARD OF STATUTORY AUDITORS TO THE FINANCIAL STATEMENTS AS AT DECEMBER 31, 2017 PURSUANT TO ART. 2429, CO. 2, C.C.

To the Shareholders of the company 2i RETE GAS S.p.A.,

this report was approved by the Board jointly and in good time for its filing at the company's registered office, within 15 days prior to the date of the convening of the shareholders' meeting to approve the financial statements subject to comment.

The Board of Directors made available the following documents approved on March 23, 2018, for the year ended December 31, 2017:

- draft financial statements, complete with explanatory note;
- management report.

GENERAL FOREWORD

KNOWLEDGE OF THE COMPANY, EVALUATION OF RISKS AND REPORT ON COMMITTED ASSIGNMENTS

Given the well-established knowledge that the Board of Statutory Auditors declares to have on the company and with regard to:

i) the type of activity performed;
ii) its organizational and accounting structure;

taking also into account the size and the main issues of the company, we state again that the "planning" phase of the supervisory activity - in which the intrinsic risks and the criticalities must be assessed with respect to the two parameters mentioned above - was implemented through the positive feedback on the matters that are already known based on information acquired over time.

It was therefore possible to confirm that:

- the typical activity carried out by the company has not changed during the year under review and is consistent with corporate object;

- the organizational structure and the endowment of the IT structures remained substantially unchanged;

- the aforementioned findings are indirectly confirmed by the comparison of the results expressed in the income statement for the last two years, namely the one under review (31.12.2017) and the previous one (31.12.2016). It is also possible to note how the company operated in 2017 under terms that are comparable with the previous year and, consequently, our controls were carried out on these assumptions having verified the substantial comparability of the values and the homogeneity of the results with those of the previous year.

The activities carried out by the Board concerned, from a temporal point of view, the entire financial year; the Board meetings pursuant to art. 2404 c.c. have been held during the course of the same year and specific minutes of these meetings were duly signed for unanimous approval.

ACTIVITY PERFORMED

During the periodic checks, the Board was constantly informed of the evolution of the activities carried out by the company, paying particular attention to the issues of contingent and/or extraordinary nature, in order to identify the economic and financial impact on the result for the year and on the capital structure, as well as any risks like those deriving from losses on receivables, which are monitored on a regular basis.

The Auditors of PriceWaterhouseCoopers S.p.A. did not report any issues during the meetings.

Thus, the Board periodically assessed the adequacy of the organizational and functional structure of the company and its possible changes with respect to the minimum requirements deemed necessary by the activities carried out.

The relationships with the personnel operating in the aforementioned structure – both directors and external consultants – have been inspired by mutual cooperation, while respecting the assigned roles, having clarified those of the Board of Statutory Auditors.

For the entire duration of the period it was found that:

- the administrative staff responsible for the reporting of company events has not substantially changed compared to the previous year;

- the level of technical preparation remains adequate with respect to the type of ordinary company facts to be recorded and has sufficient knowledge of company issues;

- external consultants and professionals in charge of accounting, tax, corporate and labor law assistance have not changed. Therefore, they have all been able to gain a historical knowledge of the activities carried out and of management issues, even extraordinary, that have influenced the results of the fiscal year.

The information required by art. 2381, co. 5 of the Italian Civil Code, were provided by the Chief Executive Officer both during the meetings held and through the contacts/information flows: thus the Board of Directors has, in substance and formally, complied with what is imposed by the cited law.

In conclusion, as far as it was possible to find during the activity carried out during the year, the Board of Statutory Auditors can state that:

- the decisions taken by the Board of Directors have been compliant with the law and the company by-laws and have not been obviously imprudent or such as to definitively compromise the integrity of the company's assets;

- sufficient information was acquired regarding the general performance of operations and their foreseeable evolution, as well as the most significant transactions, by size or characteristics, carried out by the company;

- the operations carried out were also compliant with the law and the company by-laws and not in potential conflict with the resolutions adopted by the Shareholders' meeting or such as to compromise the integrity of the corporate assets;

- no specific remarks are made as to the adequacy of the company's organizational structure, nor with regard to the adequacy of the administrative and accounting system, as well as the reliability of the latter in correctly representing management events;

- during the course of the supervisory activity, as described above, no other significant facts that would require reporting in this report emerged;

- During 2017, the company concluded the preliminary agreement for the acquisition of the company Nedgia S.p.A. and Gas Natural Servizi S.p.A. which was completed on February 1, 2018.

- no action was required due to the omissions of the administrative body pursuant to art. 2406 cc .;

- no reports were received pursuant to art. 2408 c.c .;

- no complaints have been filed pursuant to art. 2409, co. 7, c.c ..

REMARKS AND PROPOSALS ON FINANCIAL STATEMENTS AND THEIR APPROVAL

The draft Financial Statements for the year ended December 31, 2017 were approved by the Board of Directors on March 23, 2018 and consist of the balance sheet, the income statement and the notes to the financial statements.

The Board of Directors also prepared the management report pursuant to art. 2428 c.c ..

These documents have been handed over to the Board of Statutory Auditors in time for them to be deposited at the company headquarters accompanied by this report, regardless of the deadline set by art. 2429, co. 1, c.c ..

We hereby acknowledge that the Board of Statutory Auditors has had several meetings and exchange of information with the independent auditors "PWC SpA" on the matters for which they are respectively responsible, and from these exchanges no significant facts have emerged which we deem appropriate to report here.

The Board of Statutory Auditors also exchanged information with the Auditors on the auditing plan for 2017 in particular with reference to the changes introduced by Legislative Decree 139/2015 and EU Regulation No. 537/2014. This was in the light of the supervisory function attributed to the Board - as "Internal Control and Auditing Committee" - from article 19 of Legislative Decree 39/2010 on statutory auditing.

The Board of Statutory Auditors has took due note that the annual report of the Independent Auditors report pursuant to art. 14 Legislative Decree January 27, 2010, n. 39 of the financial statements for the year ended December 31, 2017, incorporating the aforementioned regulatory changes, contains the opinion on the compliance of the management report with legal requirements, as well as the declaration that it does not present significant errors that could jeopardize its truthfulness and fairness.

The report does not highlight findings for significant deviations, or negative judgments or inability to express a judgment or highlights of information and therefore the judgment issued is positive.

In addition to the audit report, which has no findings or highlights of information, the Auditors have communicated to the Board of Statutory Auditors the "Additional report" pursuant to art. 11 of the aforementioned EU Regulation no. 537/2014.

This report, which will be duly submitted to the Administrative Body, contains, among other things, the declaration of independency of the Auditors, the summary of significant issues detected during the course of the legal audit, as well as the confirmation that they have not noted "significant weaknesses" in the internal control system on the financial reporting process.

The Independent Auditors included the declaration of their independence in the additional report pursuant to art. 11 of the aforementioned EU Regulation no. 537/2014: the Board of Statutory Auditors verified the existence of this requirement, also on a continuous basis.

Finally, it is not apparent to the Board that the Company gave assignments to persons or companies linked by ongoing relationships to "PWC SpA".

The draft Financial Statements were therefore examined, on which we provide the following additional information:

- the valuation criteria of assets and liabilities subject to this mandatory requirement have been checked and have not been found substantially different from those adopted in previous years, in compliance with the provisions of art. 2426 c.c .;

- attention was paid to the approach held drafting the Financial Statements, their general compliance with the law both on drafting and structure, and in this regard there are no remarks to be highlighted in this report;

- compliance with the provisions of law regarding the preparation of the management report has been verified and in this regard there are no remarks that should be highlighted in this report;

- the Administrative Body, in drafting the financial statements, did not derogate from the legal provisions pursuant to art. 2423, co. 4, c.c .;

- the correspondence of the financial statements to the facts and information of which we became aware as a result of the typical duties of the Board of Statutory Auditors was verified and no further remarks are made in this regard;

- the correctness of the information contained in the explanatory notes was verified with regard to the absence of active and passive financial and monetary positions originally arisen in currencies other than the Euro;

- information was acquired from the Organismo di Vigilanza (Supervisory Board) and no critical issues which should be highlighted in this report emerged as to the organizational model, which is however constantly updated;

- as to the proposal of the Board of Directors on the allocation of the net result for the year shown at the end of the management report, the Board has nothing to observe, while noting that the decision on this matter belongs to the Shareholders' meeting.

RESULT FOR THE PERIOD

The net result ascertained by the Board of Directors for the year ended December 31, 2017, as also evident from the reading of the Financial Statements, is positive for 120,727,912 Euros.

CONCLUSIONS

On the basis of the above and considering what has been brought to the attention of the Board of Statutory Auditors and was found by the periodic checks we carried out, it is unanimously confirmed that there are no grounds for impeding the approval of the draft Financial Statements for the year closed as at 31 December 2017, as drafted and proposed by the Board of Directors, and the subsequent proposal to allocate the profit for the year.

Milan, April 6, 2018

Board of Statutory Auditors

Dott. Marco Antonio Dell'Acqua (Presidente)
(Signed on the original)

Dott. Marco Giuliani (Member)
(Signed on the original)

Prof. Gianluigi Gola (Member)
(Signed on the original)

IX Report of the Independent Auditors

2i Rete Gas SpA

Independent auditor's report

in accordance with article 14 of Legislative Decree 39 of 27 January 2010 and article 10 of Regulation (EU) 537/2014

Separate financial statements as of 31 December 2017

Independent auditor's report

in accordance with article 14 of Legislative Decree 39 of 27 January 2010 and article 10 of Regulation (EU) 537/2014

To the shareholders of 2i Rete Gas SpA

Report on the Audit of the Separate Financial Statements

Opinion

We have audited the separate financial statements of 2i Rete Gas SpA (the "Company"), which comprise the statement of financial position as of 31 December 2017, the income statement, the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and the notes to the separate financial statements, including a summary of significant accounting policies.

In our opinion, the separate financial statements give a true and fair view of the financial position of the Company as of 31 December 2017, and of the result of its operations and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union, and with the regulations issued to implement article 9 of Legislative Decree 38/05.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in section Auditor's Responsibilities for the Audit of the Separate Financial Statements of this report. We are independent of the Company based on ethic and independence regulations and standards applicable to audits of financial statements under Italian law. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the separate financial statements of the current period. These matters were addressed in the context of our audit of the separate financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key Audit Matters	*How our audit addressed the key audit matter*
Capital expenditure for gas distribution network under service concession agreements	
Note 12 of the Annual Financial Report – statutory financial statements - intangible assets As of 31 December 2017 gas distribution service concessions and similar rights amount to € 2,723 million, representing the 62% of total assets. Costs capitalised during the year amount to € 234 million. The company operates in the gas distribution industry. The industry is regulated by the Italian Regulatory Authority for Energy, Networks and Environment (ARERA). Revenue from gas distribution activities are determined each year in accordance with the regulatory approved tariffs which are based on a pre-established return on capital invested, plus amortisation and depreciation and operating costs. Considering the magnitude of the capital expenditure made by the company, the proper capitalisation of costs related to service concession agreements in accordance with IFRIC12 represented a key matter in the audit of the separate financial statements.	We performed an understanding and evaluation of the system of internal control over the capital expenditure cycle, with particular reference to identification and testing of key controls. We assessed the accounting policy adopted by the company in relation to the capitalisation of costs. We performed detailed tests analysing, on a sample basis, the supporting documentation of costs capitalised to verify the accuracy, completeness and the proper period.

Key Audit Matters	How our audit addressed the key audit matter
Provisions for risks and charges	
Note 27 of the Annual Financial Report – statutory financial statements - provisions for risks and charges As of 31 December 2017 provisions for risks and charges amount to € 86 million and include probable liabilities as a result of past events for which the outflow can be reasonably estimated at the balance sheet date. Provisions for risks and charges mainly relate to costs associated with various disputes with municipalities, costs that could potentially arise from maintenance or replacement of defective measurement equipment, as well as the risk of a revision of some tariffs for concessions owned by third parties. Given the magnitude of the accrued balances and the use of estimates made, the measurement of the provisions for risks and charges was a key audit matter for the audit of the separate financial statements.	We have carried out the understanding and valuation of key controls in place over the provisions for risks and charges measurement process. We have tested, on a sample basis, the documentation supporting the most significant accruals made to assess the adequacy of the provisions for risks and charges. We obtained written confirmations from the lawyers appointed by the company, indicating the individual positions in place and their assessment of the risk of potential liability. We discussed with management the conclusions reached on the criteria for quantifying the provisions for risks and charges. We verified the accuracy and completeness of the disclosure included in the notes to the separate financial statements.

Responsibilities of Management and Those Charged with Governance for the Separate Financial Statements

Management is responsible for the preparation of separate financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union, and with the regulations issued to implement article 9 of Legislative Decree 38/05 and, in the terms prescribed by law, for such internal control as management determines is necessary to enable the preparation of separate financial statements that are free from material misstatement, whether due to fraud or error.

Management is responsible for assessing the Company ability to continue as a going concern and, in preparing the separate financial statements, for the appropriate application of the going concern basis of accounting, and for disclosing matters related to going concern. In preparing the separate financial statements, management uses the going concern basis of accounting unless management intends either to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing, in the terms prescribed by law, the Company financial reporting process.

Auditor's Responsibilities for the Audit of the Separate Financial Statements

Our objectives are to obtain reasonable assurance about whether the separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with International Standards on Auditing (ISA Italia) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the separate financial statements.

As part of an audit conducted in accordance with International Standards on Auditing (ISA Italia), we exercise professional judgment and maintain professional scepticism throughout the audit. Furthermore:

- we identify and assess the risks of material misstatement of the separate financial statements, whether due to fraud or error; we design and perform audit procedures responsive to those risks; we obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- we obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company internal control;
- we evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;
- we conclude on the appropriateness of management use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern;
- we evaluate the overall presentation, structure and content of the separate financial statements, including the disclosures, and whether the separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance, identified at an appropriate level as required by ISA Italia regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we complied with the regulations and standards on ethics and independence applicable under Italian law and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and, where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that are of most significance in the audit of the separate financial statements of the current period and are therefore the key audit matters. We describe these matters in our report.

Additional Disclosures required by Article 10 of Regulation (EU) 537/2014

We were appointed by the shareholders of 2i Rete Gas SpA at the general meeting held on 29 April 2015 to perform the audit of the Company consolidated and separate financial statements for the years ending 31 December 2015 through 31 December 2023.

We declare that we did not provide any prohibited non-audit services referred to in article 5, paragraph 1, of Regulation (EU) 537/2014 and that we remained independent of the Company in conducting the audit.

We confirm that the opinion on the separate financial statements expressed in this report is consistent with the additional report to those charged with governance, in their capacity as audit committee, prepared pursuant to article 11 of the aforementioned Regulation.

Report on Compliance with other Laws and Regulations

Opinion in accordance with Article 14, paragraph 2, letter e), of Legislative Decree 39/10

Management of 2i Rete Gas SpA is responsible for preparing a report on operations of 2i Rete Gas SpA as of 31 December 2017, including its consistency with the relevant separate financial statements and its compliance with the law.

We have performed the procedures required under auditing standard (SA Italia) 720B to express an opinion on the consistency of the report on operations with the separate financial statements of the Company as of 31 December 2017 and on its compliance with the law, as well as to issue a statement on material misstatements, if any.

In our opinion, the report on operations mentioned above is consistent with the separate financial statements of the Company as of 31 December 2017 and is prepared in compliance with the law.

With reference to the statement referred to in article 14, paragraph 2, letter e), of Legislative Decree 39/10, issued on the basis of our knowledge and understanding of the Company obtained in the course of the audit, we have nothing to report.

Milan, 5 April 2018

PricewaterhouseCoopers SpA

Signed by

Paolo Caccini
(Partner)

This report has been translated into English from the Italian original solely for the convenience of international readers